

Business and Its environment

- Definition of environment
- According to Richman & Copen (1986) “ the factors or constraints that are largely if not totally, external and beyond the control of individual industrial enterprise and its management.”
- “The aggregate of all conditions, events and influences that surround and affect a business.” Keith Davis (1989)
- The sum total of the forces which directly or indirectly affect the organization's performances is known as environment.

Types of business environment

1. Operating vs. remote environment

1. Operating : the environment

1. within which the business operates
2. the factors influencing the firm
3. and the firm can influence operating environment
eg. such as labour market, creditors, customers
and competitors

2. Remote environment : includes all the factors which influence the firm but whose sources is so remote that even the largest firms impact is so negligible, nominal. E.g. PESTLE

2. Domestic vs international

1. Domestic : those uncontrollable variables with which

1. the managers are familiar with

2. The firm is affected in the home market.

2. International : it is conceptualized as the interaction between domestic and foreign factors. Regional economic integrations, international PESTEL forces etc. constitute international business environment

3. Actual Vs. Perceived

1. Actual : objective in nature, the firms are influenced in the same manner
2. Perceived : depends upon how the firms perceive it, that depends upon the personality of the manager, organizational culture, organizational resources. Etc.

4. Task vs. General (Griffin 2002)

1. Task : specific organization, groups that influence the firm. The variables are influenced by organization's internal environment, such as strategies, resources, mission. Etc.
2. General : PESTLE

Components of business environment

1. Internal environment

1. Employees
2. Structure
3. Corporate culture
4. Shareholders
5. Unions
6. Strategies
7. Objectives
8. Mission
9. Organizational resources / attributes

2. External environment : PESTLE, further it is divided into
 1. Task environment ; customers, creditors, suppliers, pressure groups, stakeholders, special interest groups, government agencies, media, competitors etc.
 2. General Environment : PESTLE

Environmental Analysis

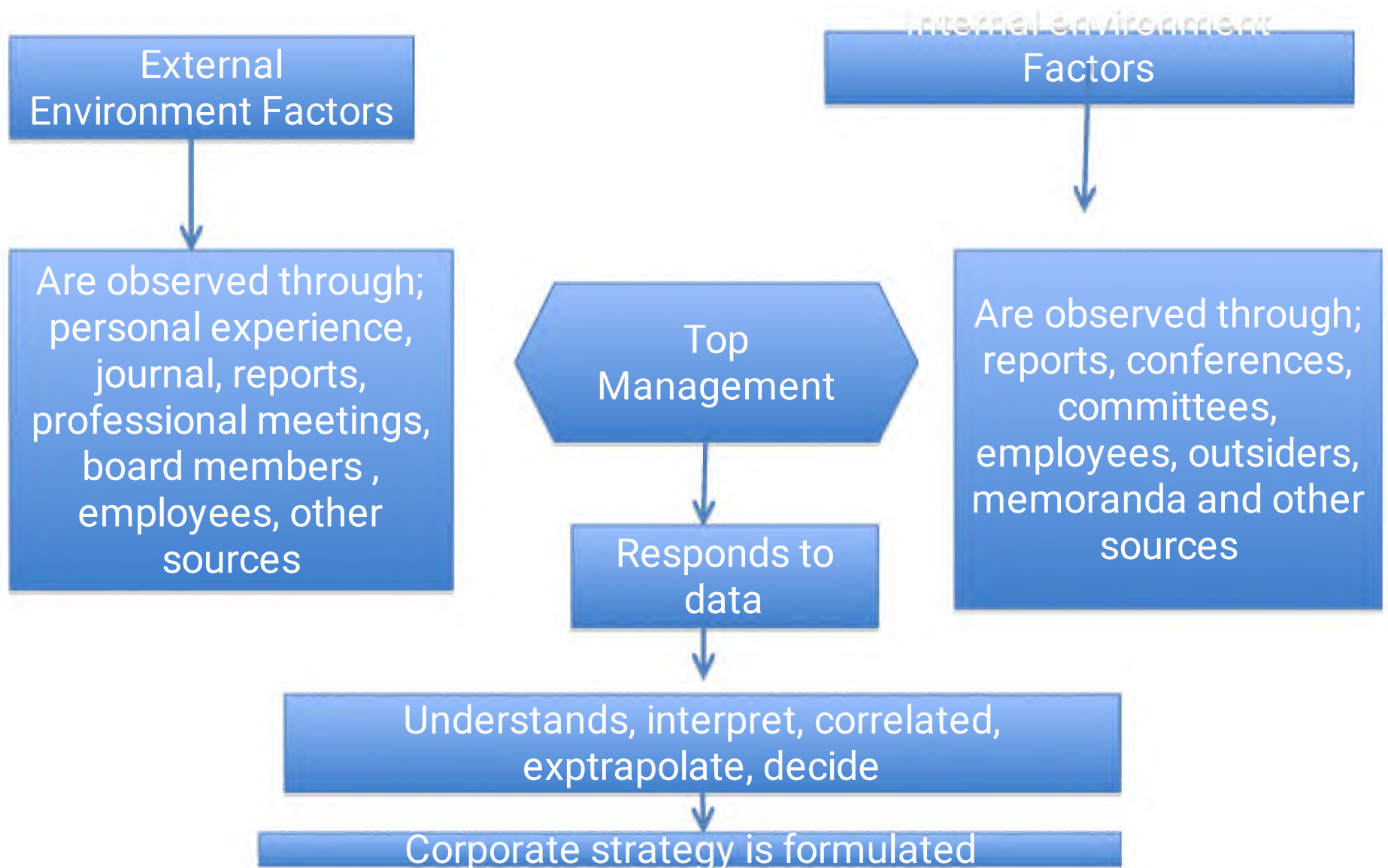
- The process by which strategists monitor the economic, legal competitive, geographic, technical and social setting to determine opportunities and threats to their firm. Glueck (1980)
- Process of assessing the emerging trends, Kotler P. (2002)
- Systematic collection, interpretation of data related to PESTLE forces to determine whether they cater opportunities or threats to the firm is known as environmental analysis.

Environment Analysis Techniques

1. Environmental scanning
2. SWOT Analysis
3. Business or market intelligences system
4. Business related publications like newspapers and journals
5. Business forecasting
6. Formal research studies
7. Scenario building
8. Benchmarking

Environmental scanning

- Environmental scanning is the method of technique of acquiring information and analysing the trends emerging in the environment.
- It involves monitoring changes and developments in the environment that have potential impact on business of an organization.



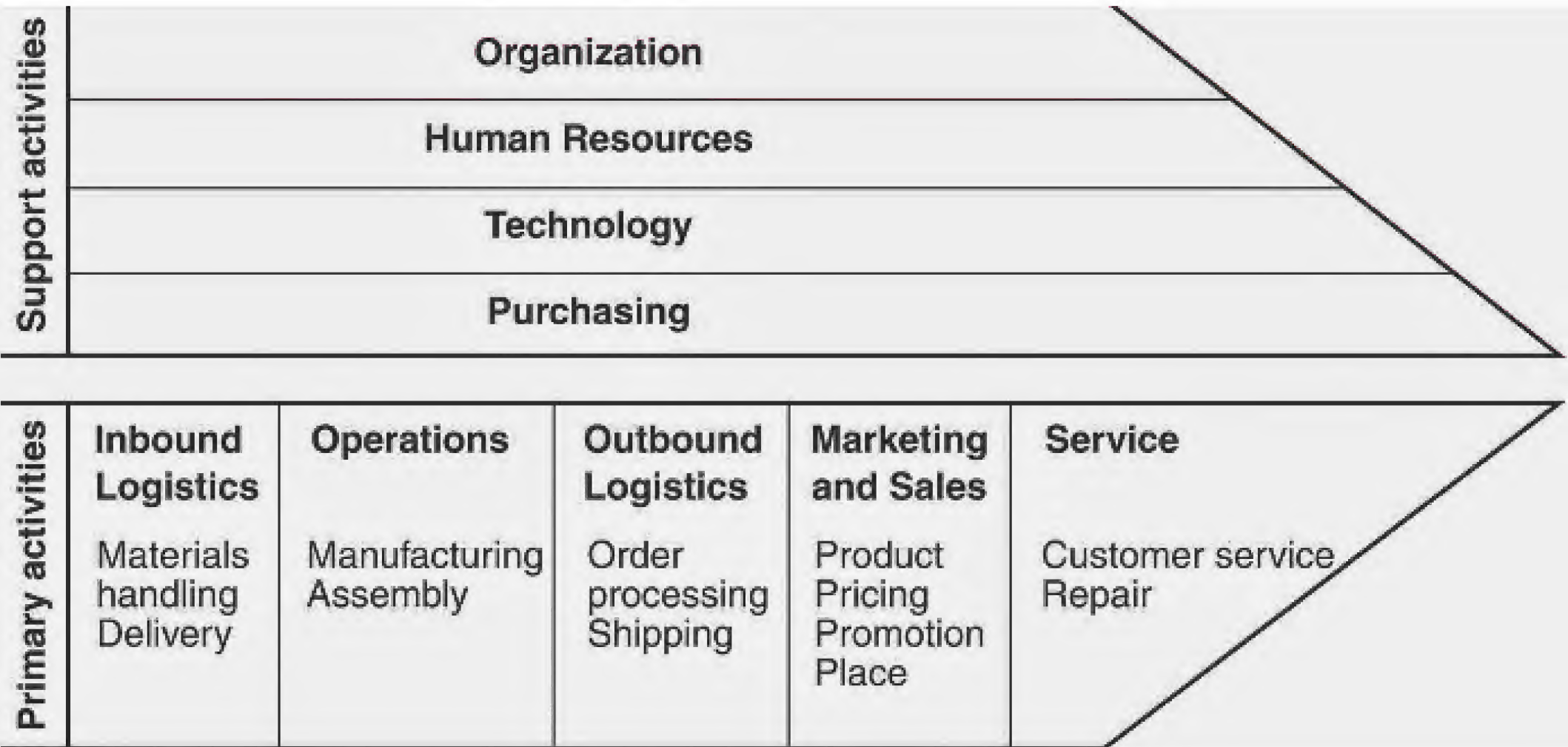
Techniques used in scanning

1. Extrapolation : based on the past data. Future is the function of the past (trend analysis, forecasting, regression analysis)
2. Historical analogy : past trends are analyzed and any unusual trends are considered as guidelines for future actions.
3. Intuitive reasoning : best guess approach, irrelevant to data and rational
4. Scenario building : a scenario is an plausible future pictures.
5. Cross impact matrix : using the forecasts derived from different methods.
6. Network methods :
 1. Contingency trees : graphic display of logical relationship among environmental trends with several alternatives
 2. Relevance trees: similar to contingency tree but it assigns degree of importance to various environmental trends with references to an outcome
7. Model building : similar to network method but focuses on developing mathematical representation of environmental phenomenon.
8. Delphi technique : systematic collection of opinion from panel of judges in varying stages.

SWOT ANALYSIS

- Strength and weakness are internal matters whereas; Opportunity and Threats are external.
- Value chain analysis a tool to assess S, W ;

Value chain as a means to assess Strength and Weakness



Forecasting

- Forecasts are prediction, projections, estimates of future situations.
- Forecasting can be made on sales, product, supplies, manpower availability.
- Forecasts are made on the basis of past data.
- Forecasts are made for reducing future uncertainties.

Process of Environmental Analysis

1. Environment Scanning
2. Monitoring
3. Forecasting
4. Assessment

Process of Environmental Scanning

1. Identify relevant forces in the environment: (PESTLE)
2. Determine sources of observation:
 1. Personal experience
 2. Managers, employees and competitors
 3. Experts, consultants, researchers
 4. Meetings, conferences, committees
 5. Newspapers, journals, reports and books
 6. Other sources
3. Select scanning methods : (extrapolation, Historical, intuitive, scenario building, model building, network, delphi, survey,)
4. Scan and respond to data : study, analyze, assess understand, interpret, correlate, and crucial development must be identified. Such as special events, trends, issues, expectations of stakeholders must be taken into consideration

Monitoring

- it involves tracking environmental trends and events.
1. Specific description of environmental trends and events.
 2. Identification of trends and events for further monitoring.
 3. Identification of areas of forecasting

Forecasting

1. Areas to be make forecasting ; PESTEL
2. Understanding the nature of key influences and drivers of the change
3. Projection of future alternative paths available
4. Scenario building, delphi technique, extrapolation can be useful tools for forecasting

Assessment

- Identification of key opportunities and threats
- Competitive position of the firm is analyzed.

Uses of environmental analysis in strategic management

1. Identification of opportunities and threats to be tackled
2. Strengths of competitive advantage in terms of resources and core competencies, weakness to be avoided
3. Formulation of strategies by matching opportunities of advantages with resources strength
4. Development of strategic options to make strategic choices
5. Assessment of effectiveness of strategies to achieve mission and objectives of the organization.
6. Corrections needed in strategies to adapt them to environmental changes.

Strategic management is impossible without environmental analysis.

Dimensions of Economy

1. Economic dimension

1. Purchasing power and pattern of consumption of people
2. Several indicators are used to measure the economic performance of a country for example ;BOP, exchange rates are used to measure the external economic performance, whereas; aggregate national output, price and level of employment are used to measure the internal economic health of a country.
3. Supply side performance of an economy is measured in terms of saving, investment productivity, wage increase, labour cost, capacity utilization of the industries operating in the country, whereas; distribution of income is (even vs. uneven) used as demand side measures of economy.

2. Socio Economic dimension : it includes demographic compositions of a country such as; population, gender mix to the population, age mix to the population, level of income, level of education etc.
3. Industrial and agricultural dimension : it indicates its potential to supply goods, services, and raw materials. The stronger the industrial and agricultural base of an economy, the greater will be the potential to supply goods, services, and raw material
4. Economic development dimension ; particularly used in mixed economy, this dimension of the economy is reflected in the economic development plans. The economic development plans indicate overall socio economic development policies. A.R

Statistics related to economic dimension- Group A.

1. Economic Dimension :

1. GNP:
2. GDP
3. Per Capita Income
4. Income distribution
5. Poverty Situation
6. Personal Consumption
7. Saving, Debt and Credit Availability
8. Position of the economy
9. Other economic dimensions ;
 1. Inflation
 2. Taxes
 3. Monetary policies
 4. Current exchange rates
 5. Tariff, customs and import duties
 6. Balance of payment
 7. International Debt Crisis.

GROUP B

2. Socio Economic Dimension :

1. population of Nepal
2. regional distribution and density
3. Age and sex structure
4. Labour force composition
5. Employment Trend
6. Migration and Foreign Employment
7. Labour market issues

Group C

1. Industrial and agricultural dimensions
 1. Industry
 2. Agriculture

Population of Nepal in Milliion

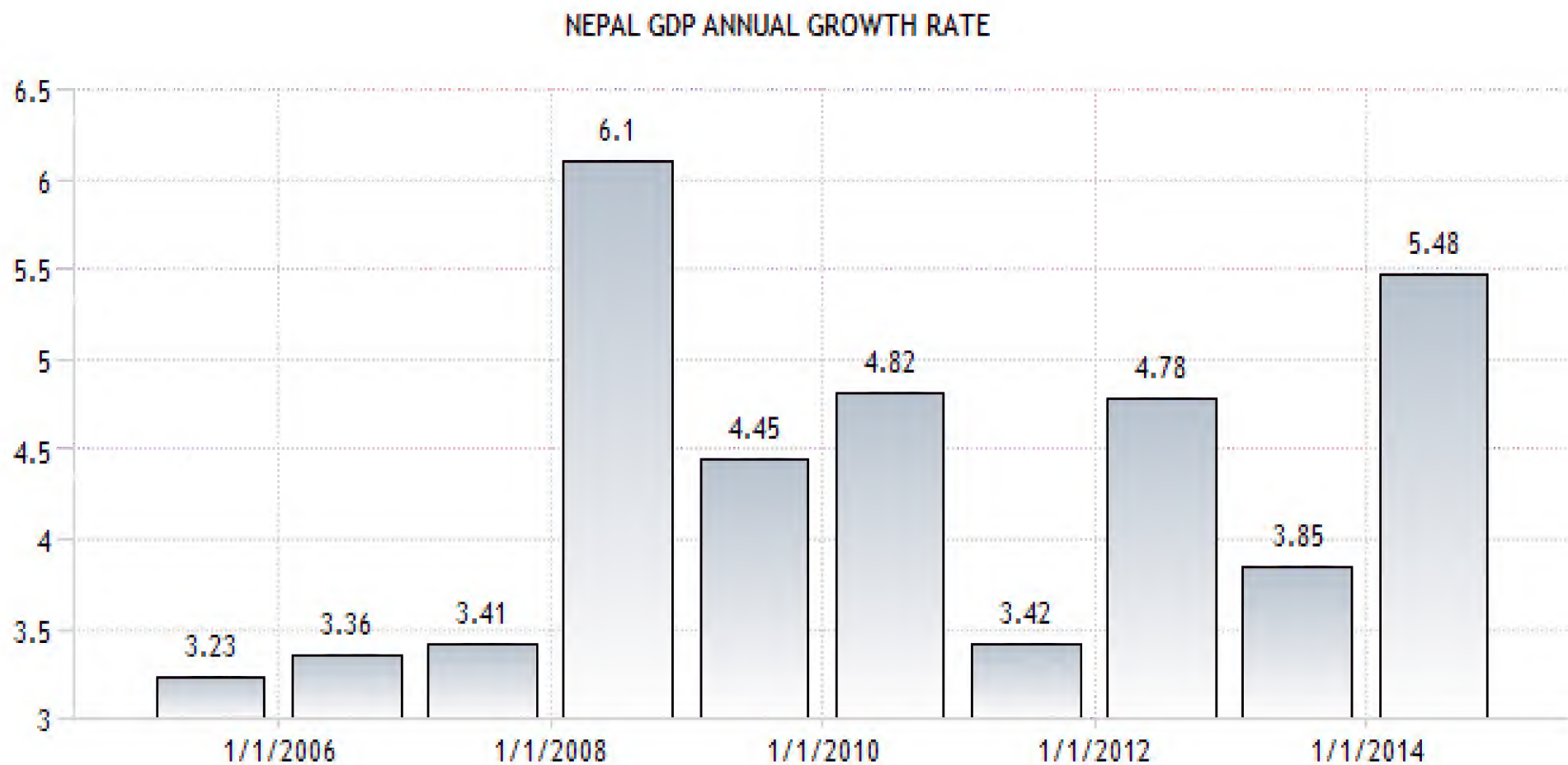
Population of Nepal (2017 and historical)

Year	Population	Yearly % Change	Yearly Change	Migrants (net)	Median Age	Fertility Rate	Density (P/Km ²)	Urban Pop %	Urban Population	Country's Share of World Pop	World Population	Nepal Global Rank
2017	29,187,037	1.17 %	336,320	-65,024	23.4	2.27	204	19.3 %	5,634,780	0.39 %	7,515,284,153	47
2016	28,850,717	1.18 %	337,017	-65,024	23.4	2.27	201	18.9 %	5,462,512	0.39 %	7,432,663,275	46
2015	28,513,700	1.19 %	327,558	-74,500	23	2.32	199	18.6 %	5,294,339	0.39 %	7,349,472,099	46
2010	26,875,910	1.05 %	273,813	-204,800	21	2.96	188	16.8 %	4,516,065	0.39 %	6,929,725,043	46
2005	25,506,847	1.45 %	353,340	-184,600	20	3.64	178	15.1 %	3,839,979	0.39 %	6,519,635,850	44
2000	23,740,145	2.11 %	469,848	-92,900	19	4.41	166	13.1 %	3,113,842	0.39 %	6,126,622,121	42
1995	21,390,905	2.68 %	529,843	15,200	19	4.97	149	10.5 %	2,243,061	0.37 %	5,735,123,084	43
1990	18,741,688	2.32 %	405,471	-43,300	19	5.33	131	8.6 %	1,603,630	0.35 %	5,309,667,699	44
1985	16,714,335	2.34 %	364,851	-20,200	19	5.62	117	7.1 %	1,192,345	0.34 %	4,852,540,569	44
1980	14,890,080	2.26 %	315,319	-8,200	19	5.8	104	5.9 %	876,189	0.34 %	4,439,632,465	45
1975	13,313,487	2.12 %	265,303	-1,200	19	5.87	93	4.7 %	621,726	0.33 %	4,061,399,228	47
1970	11,986,974	1.91 %	216,394	-4,200	19	5.96	84	3.8 %	457,288	0.33 %	3,682,487,691	44
1965	10,905,006	1.63 %	169,612	-8,100	20	5.96	65	3.6 %	390,335	0.33 %	3,322,495,121	40
1960	10,056,945	1.6 %	153,354	-16,000	20	5.96	70	3.3 %	332,199	0.33 %	3,018,343,828	42
1955	9,290,174	1.83 %	161,371	-8,100	20	5.96	65	2.9 %	268,676	0.34 %	2,758,314,525	40

Source: **Worldometers** (www.Worldometers.info)

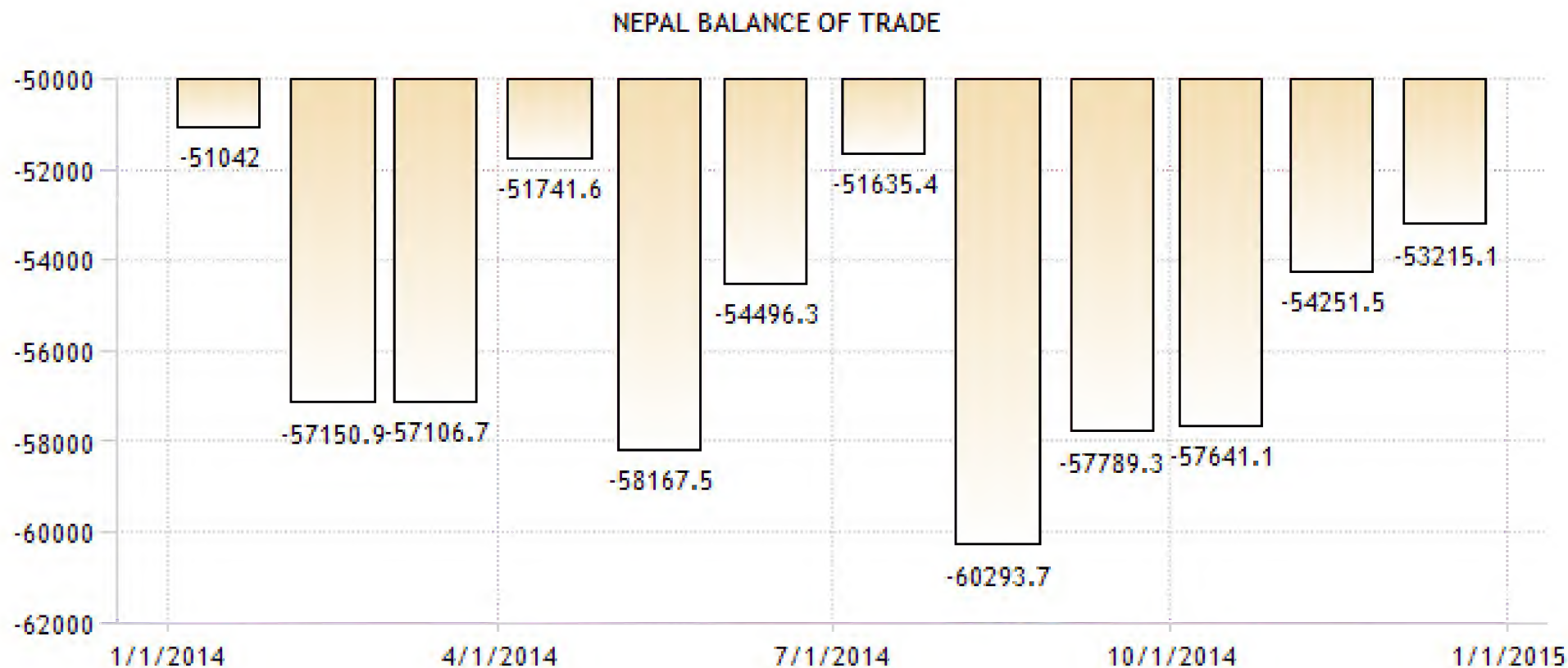
- Nepal Government Debt to GDP at 28.80 percent
- Nepal Balance of Trade at -53215.10 Million NPR
- Nepal Interest Rate at 8.00 percent
- Nepal Unemployment Rate at 2.70 percent
- Nepal Exports at 6478.70 Million NPR
- Nepal GDP Annual Growth Rate at 5.48 percent
- Nepal Current Account at 20129.90 Million Rupees
- Nepal Imports at 59693.70 Million NPR
- Nepal GDP per capita at 409.04 USD
- Nepal Inflation Rate at 6.90 percent
- Nepal Foreign Direct Investment at 3194.60 NPR Million
- Nepal Food Inflation at 11.10 percent
- Nepal Sales Tax Rate | VAT at 13.00 percent
- Nepal Population at 27.80 Million
- Nepal GDP per capita PPP at 2172.79 USD
- Nepal GDP at 19.29 USD Billion

GDP growth rate of Nepal



SOURCE: WWW.TRADINGECONOMICS.COM | CENTRAL BUREAU OF STATISTICS, NEPAL

Nepal Balance of trade



SOURCE: WWW.TRADINGECONOMICS.COM | NEPAL RASTRA BANK

Nepal unemployment rate

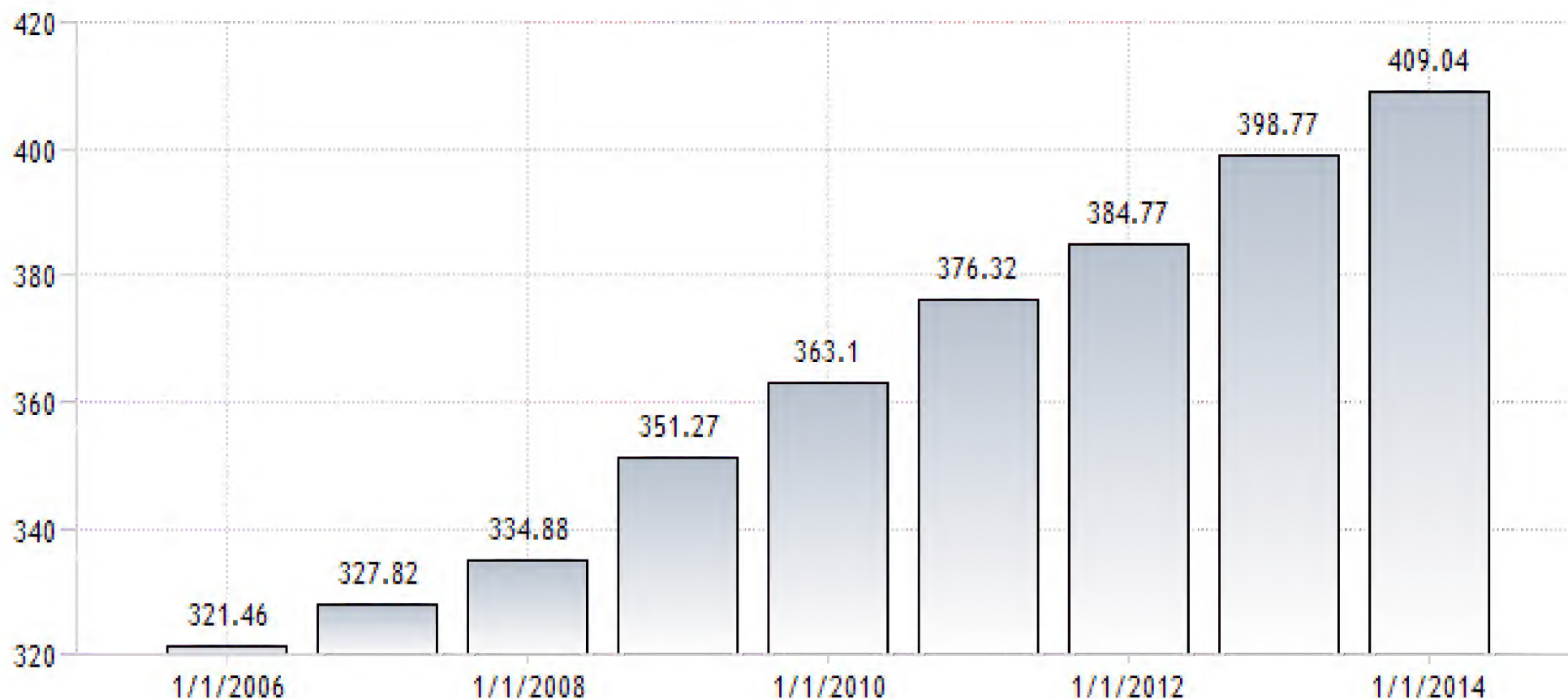
NEPAL UNEMPLOYMENT RATE



SOURCE: WWW.TRADINGECONOMICS.COM | CENTRAL BUREAU OF STATISTICS, NEPAL

GDP per capita

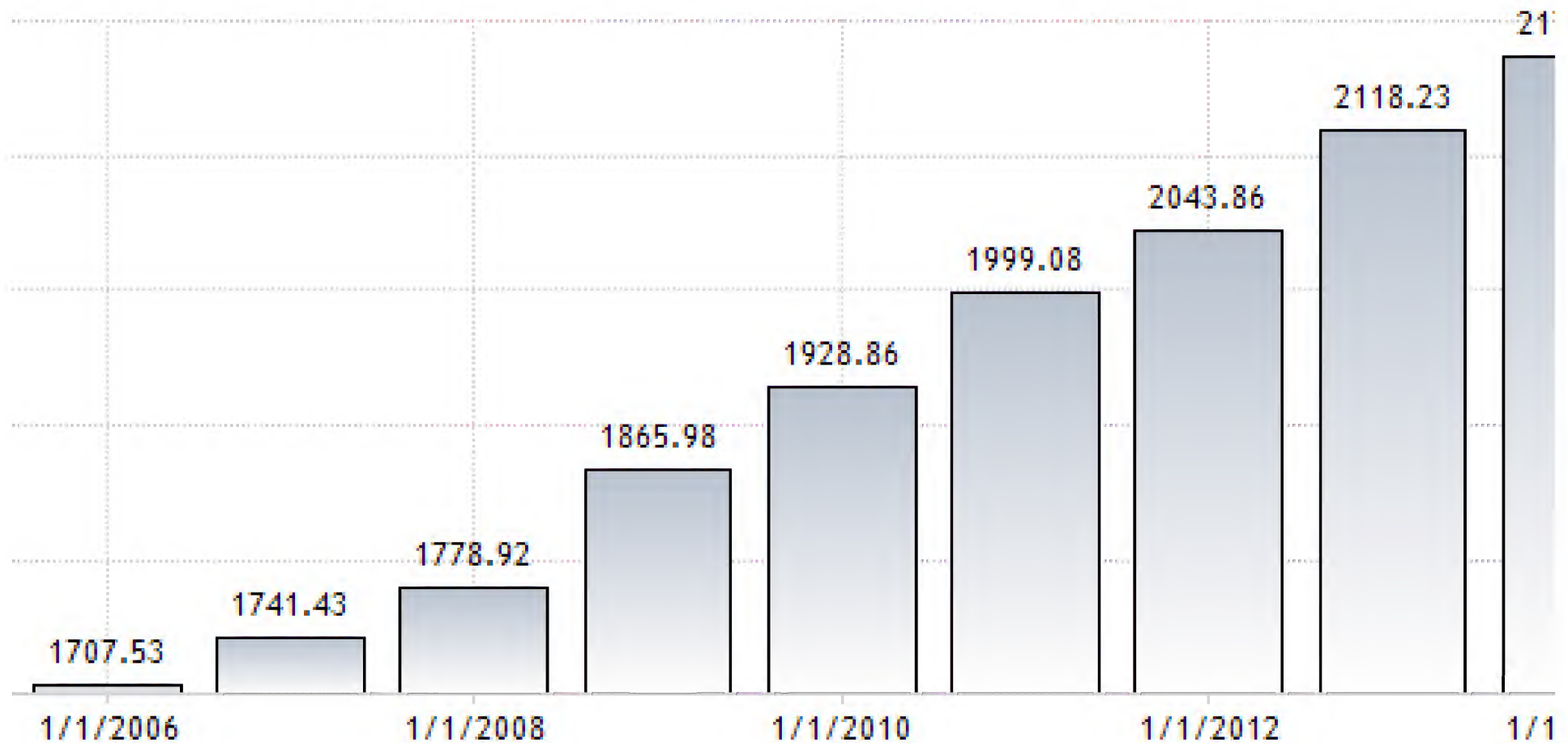
NEPAL GDP PER CAPITA



SOURCE: WWW.TRADINGECONOMICS.COM | WORLD BANK

GDP per capita PPP

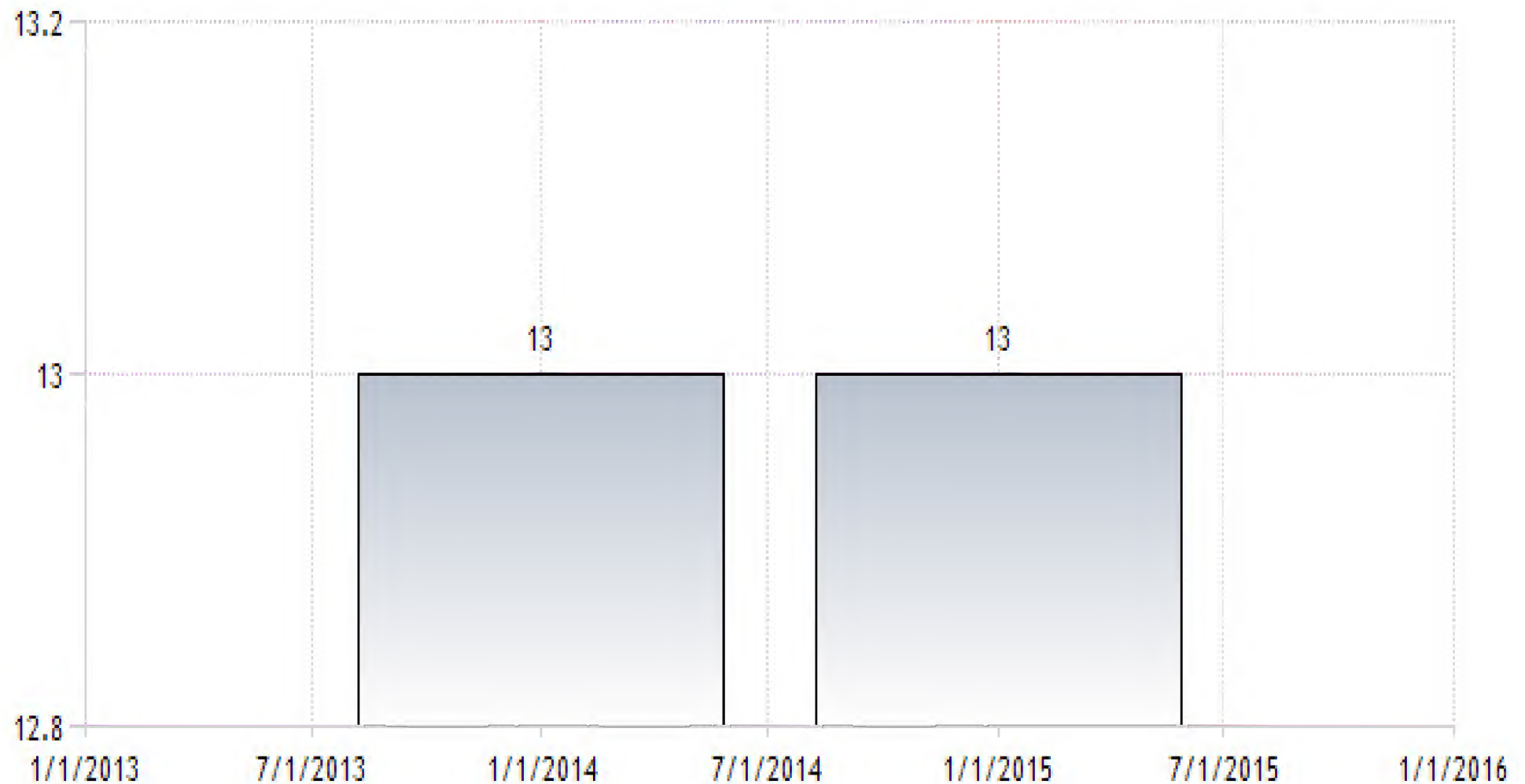
NEPAL GDP PER CAPITA PPP



SOURCE: WWW.TRADINGECONOMICS.COM | W

Taxes in Nepal

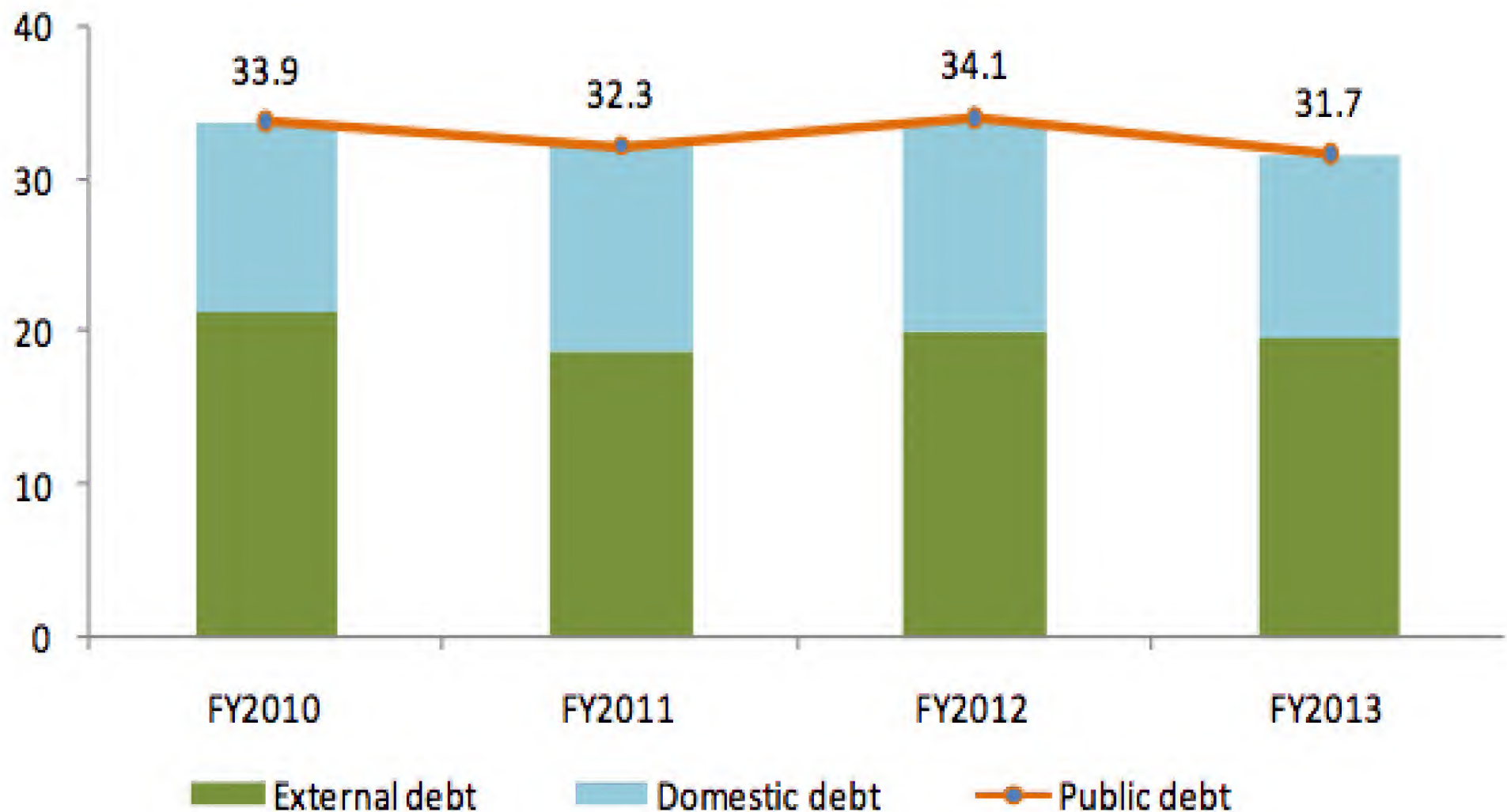
NEPAL SALES TAX RATE | VAT



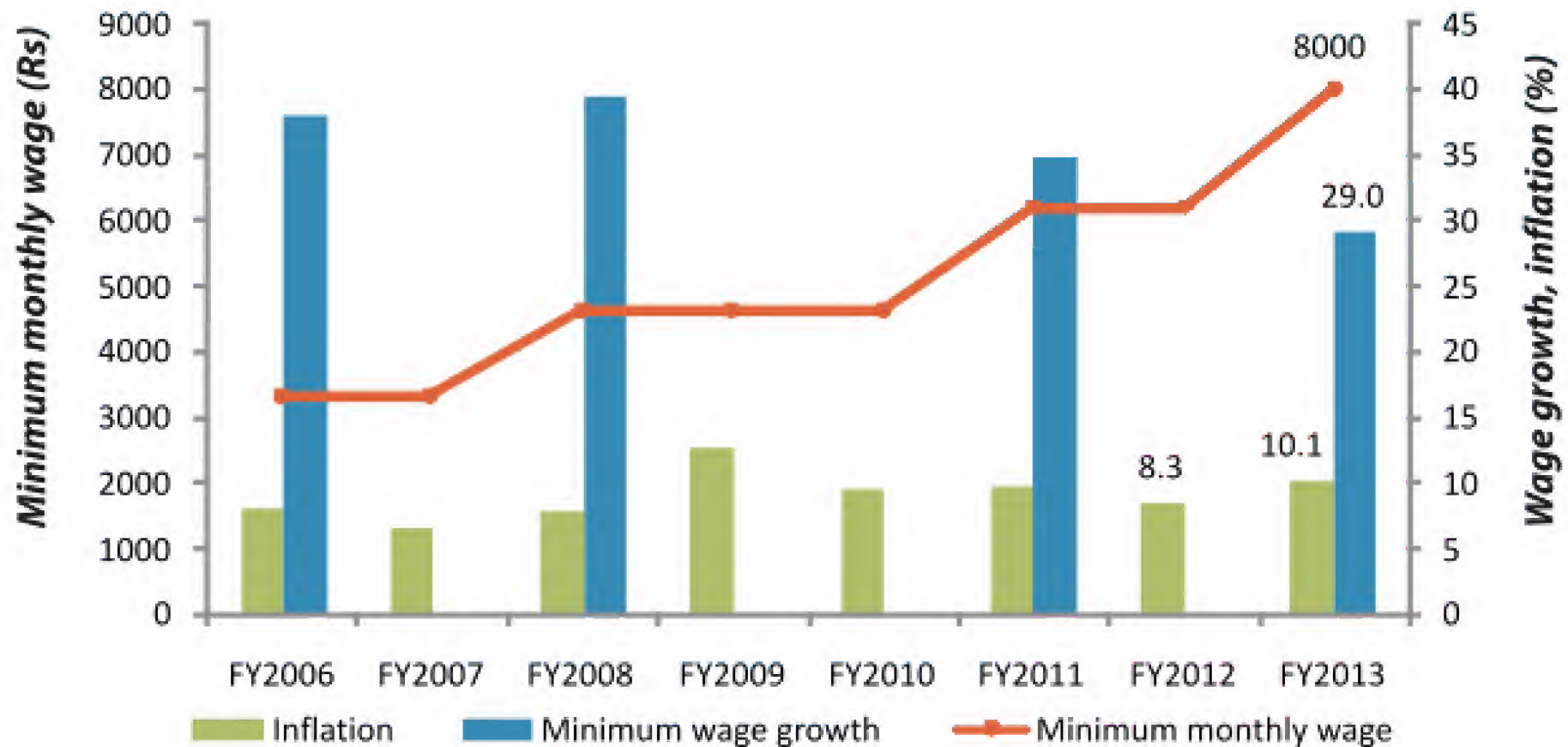
Sub-sectors	Growth rate		Share of GDP	
	FY2012R	FY2013P	FY2012R	FY2013P
Agriculture and forestry	4.9	1.2	35.4	34.3
Fishing	7.5	4.0	0.4	0.4
Mining and quarrying	5.0	5.4	0.6	0.6
Manufacturing	3.6	1.8	6.3	6.2
Electricity, gas and water	8.4	0.2	1.2	1.3
Construction	0.2	1.6	6.8	6.9
Wholesale and retail trade	3.0	9.5	13.7	14.4
Hotels and restaurants	6.0	6.8	1.7	1.8
Transport, storage and communications	5.7	6.7	8.6	9.2
Financial intermediation	3.5	6.6	4.5	4.2
Real estate, renting and business activities	3.0	1.6	8.3	8.5
Public administration and defense	5.0	3.3	2.0	1.9
Education	5.0	4.1	5.5	5.4
Health and social work	10.0	6.9	1.4	1.4
Community, social and personal services	6.6	5.2	3.7	3.5

Source: Central Bureau of Statistics.

Public debt % to GDP



Minimum wage, inflation & wage growth



Source: ILO Global Wage Report 2012-13; NRM staff estimates.

Box 2: Highlights of Monetary Policy for FY2014*

Key highlights:

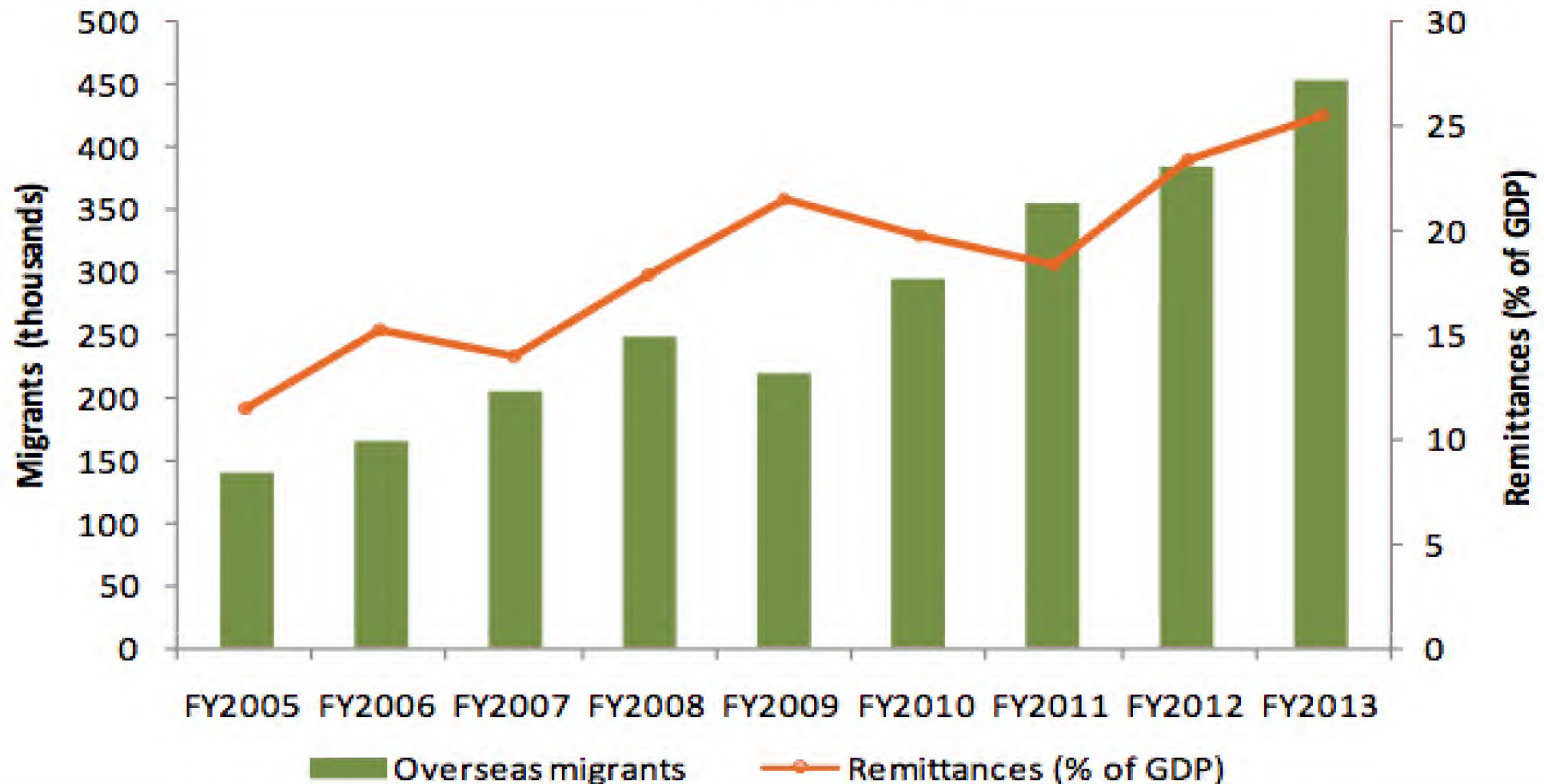
- The monetary policy seeks to support attaining a real GDP growth of 5.5% and containing inflation at 8%, the FY2014 budget targets
- Money supply and total credit growth target haven been set at 16% and 17.1%, respectively. Growth of credit to government and private sector are targeted at 12.3% and 18%, respectively.
- Cash reserve ratio (CRR) requirement has been lowered by 100 basis points to 5%, 4.5% and 4% for commercial banks, development banks and finance companies, respectively. Similarly, statutory liquidity ratio (SLR) for commercial banks, development banks and finance companies has been lowered to 12%, 9%, and 8%, respectively.
- Nepal Rastra Bank (NRB) has mandated commercial banks to lend at least 12% of their total loan portfolio to agriculture and energy sectors, up from 10% in FY2013.
- The minimum deprived sector lending by commercial banks, development banks and finance companies has been increased to 4.5%, 4%, and 3.5%, respectively, of their total loans.
- NRB has given continuity to its policy regarding the moratorium on the establishment of new Category A, B and C institutions.
- NRB is planning to introduce an online bidding system for the auction of treasury bills and development bonds, formulate and implement open market operations bylaws, and develop necessary infrastructure for the transaction of government debt securities in the secondary market by adopting the primary dealership system.

Key observations:

- The lower CRR and SLR suggest a loose monetary policy aimed at attaining the GDP growth target by channeling more credit to the productive sectors.
- The emphasis on the consolidation of the bank and financial institutions (BFIs) and the continuation of the moratorium on the establishment of new BFIs will help improve the supervision and regulation of the banking sector.
- The commitment to strict and regular supervision and inspection should help address the concerns about the financial health and dealings of the lower tier BFIs.
- Despite the loose monetary policy, money supply (M2) growth target is 16%, the same as in FY2013. It remains to be seen how NRB will control money supply growth at 16% even after reducing CRR and SLR, both of which will increase monetary base and ultimately the money supply.
- Although there is a need to channel more credit to productive sectors and increase access to finance in rural areas, the mandatory lending targets limit the BFIs' ability to allocate resources efficiently in terms of maintaining sound portfolios and ensuring reliable income sources.

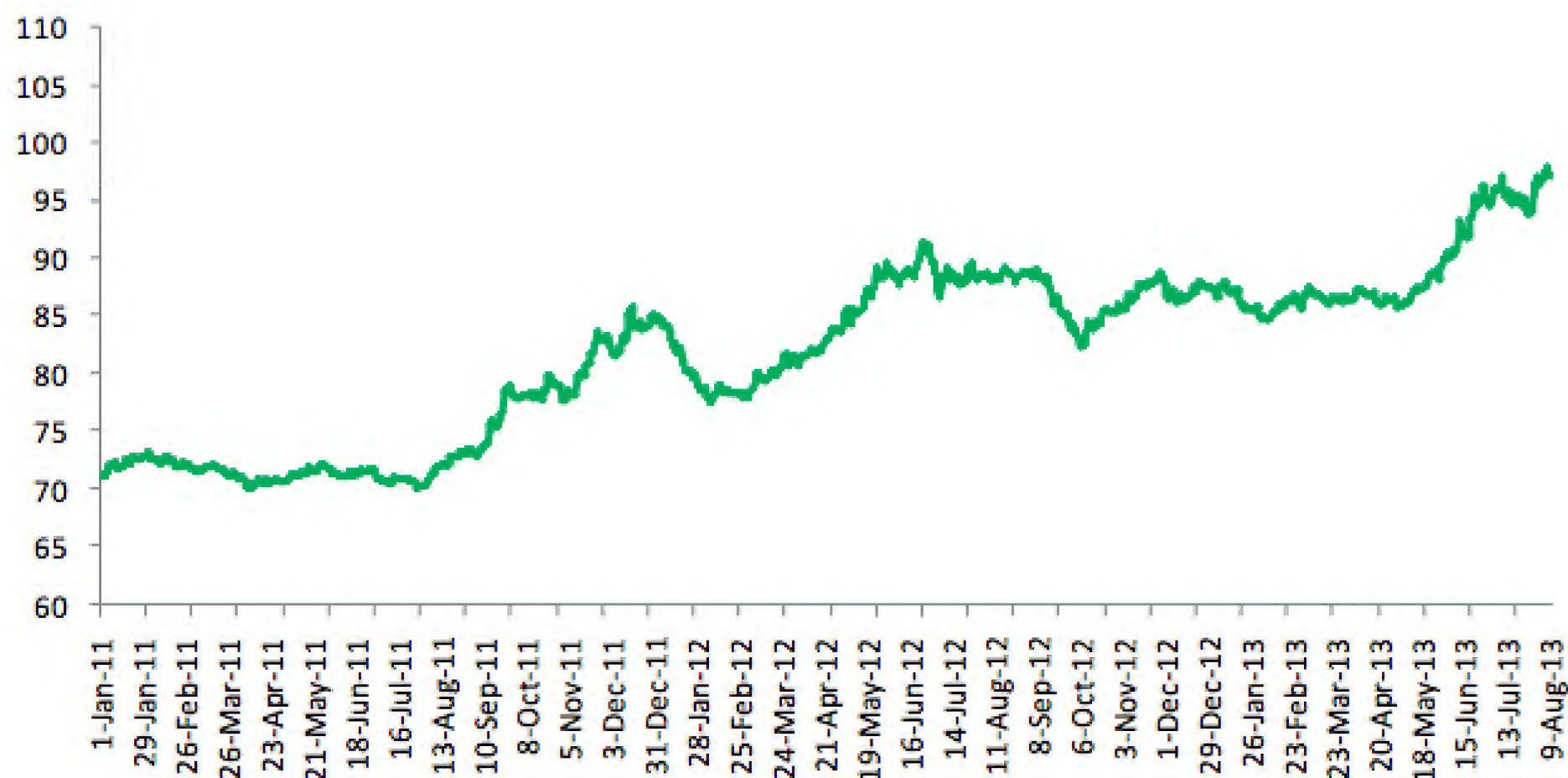
* For an in-depth analysis of monetary policy for FY2014, see Appendix 2.

Remittances (% of GDP) and number of labor migrants



Source: Department of Foreign Employment and Nepal Rastra Bank.

Daily nominal exchange rate (NRs per \$)



Source: Nepal Rastra Bank.

Major problems and challenges facing Nepalese economy

Real Sector

1. It is necessary to achieve higher and sustainable economic growth rate for country's rapid economic development.

An average annual growth rate for the past 10 years has been a mere 4.1 percent, developing country status requires double digit economic growth - a challenge.

2. Agriculture production has been playing vital role in Nepal's economic growth. Agriculture sector is affected by favorable/unfavorable climatic conditions, resulting in the fluctuation of GDP thereby affecting overall economic growth. the last 10 years period has remained at 3.2 percent.

3. Saving is the source of investment. It cannot be possible to raise investment rate without raising rate of saving. gross domestic savings is about 9 percent of GDP.

4. Investment, both domestic and foreign, could not be expanded as a consequence of failure to bring improvement in investment environment due to prolonged political transition, uneasy labor relation, energy crisis, closures/strikes and weak infrastructure, among others. Contribution of the manufacturing sector that stood at 10 percent to GDP in the past has now been contained at 6.0 percent. Hence, it is a challenging task to raise industrial production and productivity through policy, institutional and structural enhancement so as to improve industrial and investment environment.

5. The rate of inflation has remained high owing to supply and structural factors. Persistent higher inflation rate despite steps taken through monetary and fiscal policies to curb it adversely affects the government target of reducing poverty along with achieving the higher economic growth rate. Hence, it is a challenge to contain the inflation rate within desirable limit
6. More than 400 thousand labor force enters the labor market every year. Failure in creating employment opportunities in domestic market has created a situation for exodus of that number (of labor force) seeking foreign employment. Expansion of income earning opportunities by creating adequate employment opportunities within country itself is getting more complex

7. Though the population below poverty line has been declining as a result of steps taken in the past towards reducing poverty, the poverty intensity has remained higher among women, Dalits, minority community, people of backward rural communities and physically challenged people. Likewise, the gap between the rich and the poor still remains wide. Hence, it is a challenging task to bring significant improvement in the people's living standard by reducing income inequality through effective implementation of poverty alleviation program.
8. The larger chunk of population is still lagging behind from the social development perspective though social indicators seem positive. Proportional development and distribution of the social services like education, health, drinking water and sanitation has become more difficult.
9. The country has been suffering from energy crisis despite the abundant water resource potential. Tasks of removing policy, process, and institution related obstacles towards mitigating the existing load shedding problem through timely completion of ongoing hydroelectricity projects; investing in quick result yielding hydropower projects; and expediting extension of electric transmission lines are very complex.

Government Sector

1. Since last few years, government's capital expenditure has not expanded to the desired extent. The average ratio of capital expenditure to GDP in the last five years has remained merely at 5.0 percent. Likewise, actual capital expenditure has been very low as compared to the budgetary allocation. This clearly indicates the government sector's inability to improve its spending capacity. Since infrastructure development is not possible in absence of higher capital expenditure, enhancing spending capacity of the government has remained a challenge.
2. The past trend of recurrent expenditure shows achievement as targeted and steadily growing. On an average, the ratio of recurrent expenditure to GDP has remained at 14.3 percent in the last 5 years. However, it is imperative to be prudent on recurrent expenditure while expanding the capital expenditure so as to attain higher economic growth rate. Hence, containing the recurrent expenditure at the desired limit through prudent spending is a growing challenge.

3. The task of prioritizing government expenditure is still very tough. Placing most of the projects/programs in P1 category shows as if all projects/programs are of the same priority, which has been creating problems in prioritizing and managing their expenditures aside from having difficulties in achieving their results.
4. Risks still persist despite gradual reduction in the total outstanding debt. The foreign debt liability increases when Nepalese currency depreciates against the US Dollar. This has been posing foreign exchange risk in relation to foreign debt. Likewise, there has been increased risk in the interest rate of domestic borrowing owing to the fact that short-term treasury bills occupy more than 65 percent share in domestic borrowing. Hence, risk minimization by maintaining domestic and foreign debt structures at optimum level has still remained a challenge.

5. Management of Public Enterprises is getting more complex. The State has been bearing huge amount against staff salaries, allowances and other facilities even though a number of Public Enterprises have remained closed for long. Hence, tasks to re-operate those PEs, initiate the process of disinvestment or go to their liquidation process, and manage the existing employees in an appropriate manner have remained challenging task.
6. The financial situation of Nepal Oil Corporation (NOC), with sole authority for supply and distribution of POL products, has been deteriorating. The regular supply of POL products is getting frequent problem owing to several factors including the lack of cash flow. There have been several problems in the tasks such as curbing the leakage by strengthening NOC management, adjusting POL prices in line with international market prices, giving due consideration to energy development for reducing dependency on POL products.

Monetary Sector

1. Despite increased access to finance along with growing number of banks and financial institutions, the large chunk of population has still been far from access to institutional finance. This situation emerged as a result of higher concentration of banks and financial institutions in urban areas. Tasks of extending financial services to village level through financial inclusion and enhancing financial literacy among the general public have remained a challenge.
2. The tasks of maintaining financial stability and increasing peoples' trust towards banks and financial institutions at par with their rising numbers have been quite difficult. Enhancing the people's faith on financial sector by maintaining stability of banks and financial institutions and good governance through monitoring, supervision, and macro prudential regulations are still a challenge.

3. Provisions have been introduced for the merger and acquisitions of banks and financial institutions in order to maintain financial stability by strengthening their capital base. Though the merger process of banks and financial institution received expeditious pace after the introduction of Merger and acquisition By-laws 2011, it is a challenging task to make the merger process successful amid the eminent problems such as possibility of monopoly in the financial sector, obstruction that may emerge in financial inclusiveness and the problem of Too Big to Fail.
4. The banking sector has been witnessing high liquidity in recent time. Despite reduction in the interest rate against deposits due to high liquidity, spread between the interest on deposits and lending is still high due to higher rate of interest on lending. There is a challenge to solve the problem of high liquidity emerged through the lower credit disbursement against such higher liquidity by extending credit to productive sectors and containing the interest spread within a desired limit.

5. The overall financial system is facing challenge due to problems witnessed in the cooperative sector occupying more than 15 percent share in the financial sector. The cooperative sector has been losing peoples' faith due to surfacing of the fact that most of the cooperatives are in dire state with deposits of the depositors sunk. It is a difficult task to regain public faith through proper arrangements of regulation, monitoring and supervision for saving and credit cooperatives thereby improving policy, legal, institutional and managerial aspects and address those problems witnessed in this sector.
6. Development of capital market is imperative for raising capital formation rate through collection of scattered savings. Though the people elected government formed subsequent to the second constituent assembly election has brought positive impact on the capital market, attaining its sustainable development through resolution of problems witnessed while broadening the area of transactions, attracting institutional investors, enhancing the level of awareness among investors, encouraging companies of the real sector to be listed in securities market, making the securities transactions fully automated, properly regulating the commodity market and

External Sector

1. The escalating trade deficit is everybody's concern. Failure to identify and promote exportable goods in a situation of higher import base accompanied by its increased growth rate is attributable to the increased trade deficit being witnessed every year. The trade deficit that stood at 15.4 percent to GDP in FY 2004/05 went up to 28.4 percent in FY 2012/13. Hence, tasks to increase domestic production through increased investment by promoting industrial environment, enhancing the competitive capacity of exports and reducing trade deficit by managing imports have remained a challenge.
2. The remittance inflow is increasing due to increased number of outbound laborers for foreign employment amid the absence of adequate employment opportunities in domestic labor market. Though higher rate of remittances inflow has created positive impact on the Nepalese economy, its utilization in productive sector has been a major concern. Major portion of such remittance volume has been spent for consumption purpose and such consumption is attributed to imports, which consequently has enriched trade deficit. Hence, creating conducive environment for the productive use of remittance, ensuring workers health and security, employing returnees from the foreign employment as per their skills, qualification and capacity in

3. Despite current account has remained surplus during last ten years, remittance income has been playing the major role for such surplus. The surplus in current account due to remittance inflows has often raised a question of it's sustainability. Extending the exports of goods and services for the sustainability of current account, raising income from tourism by increasing the number of tourist arrivals, attracting foreign direct investment and managing imports have remained a daunting task.

Other Sectors

1. Prolonged political transition has adversely affected economic activities. It is an another challenge to drive economic activities ahead in an undisputable manner by forging consensus on minimum common economic agenda among major political parties thereby managing political transition quickly as soon as possible.
2. Attaining higher and sustainable economic growth is not possible in absence of infrastructure sector's development. The effort and investment of the government alone will not be enough for the development of infrastructure sector as this sector requires heavy investment. Despite immense potential of infrastructure development through the public private partnership (PPP) model, it is a challenging task to make legal, policy, institutional and functional arrangements to execute plans and programs practically for the development of infrastructure sector.

Labour Market Issues

- Labour market mechanisms play pivotal role in the stability and productivity of the work force.
- In Nepal, the labour market regulatory frameworks are rigid and the quality of education is relatively poor resulting in incompetent, unskilled labour force.
- Labour Act -1992 prohibits the dismissal of “permanent” employees i.e. employees with more than 240 days of employment. Some of the issues related to Nepal’s labour market are as follows;

Labour Market Issues

1. There is disincentive for labour to be efficient and productive. The labour's are not provided incentives for being efficient and productive. The most of compensation packages are based on position and seniority. Efficiency and productivity of employees are not taken into consideration often.
 1. Suggestions : compensation policy based on competency based, seniority, productivity and efficiency.
2. business firms' inclination towards capital intensive system. The most of the able firms' orientation is towards the capital intensive system. This leaves the labour – manual workers at the bay.
 1. So far possible wherever possible : make use of labour force because technology replaces many people.
3. Inadequate incentive for firms to invest in training and development and education of their work force.
 1. The government must provide support to carryout training, development and skill enhancement programs through budget, any expenses incurred on those headings or topics must be tax exempted.
Etc

Labour Market issues

4. Most of the business firms are inclined to employ Indian labour force in highly skilled positions rather than Nepalese workers.

Suggestions?

suggestion : the government must have long term vision to produce skilled, industry compatible labour forces. This can be done through review of Nepal's curriculum of the universities. The government must launch aggressively skill development programs across the nation.

Labour market issues

5. Inability of the government to implement performance based incentives owing to trade union's resistance. Suggestions?
 5. Bilateral dialogue with the stakeholders and policy review to implement performance based pay schemes.
6. Employee's Resistance to change : employees are stuck to the status quo. The employees prefer the traditional method of performing their jobs. Any proposed changes are resisted by employees. Suggestion:
 5. Effective use of change management, the government must educate the employees for "why change is needed" they must be provided the training and development, assure security etc.
7. Excessive interference of political parties in Labour issues: Suggestions.

employment trend in Nepal

1. Economic transformation has been taking place in Nepal since the country slowly moves away from the agricultural sector to other sectors causing growing displacement of the labour force from agro sector to other sectors.
2. People are giving up their traditional family occupation like cottage and small industries and subsistence farming. Majority of them are attracted towards new occupation. Thus, this occupation shift from agriculture, cottage, small industries, need new other sectors to absorb.
3. Due to the lack of employment opportunities in rural areas, majority of youths are migrating from rural areas to urban areas, and overseas employment.
4. Internal migration from rural, hilly, mountain region to urban and Terai region. This will be affect the even regional development and composition of labour force.
5. Because of economic transformation, development of settlement along highways can be witnessed. Such new townships have generated employment opportunities in the area.
6. Demographic diversity in work force. Owing to the level of education amongst women, socio cultural change in viewing gender role for women, today's Nepal's workforce constitutes woman.

Sectoral Performance

1. Agriculture

2. Industries

Agriculture sectoral performance

- Nepal is an agrarian economy with the agricultural sector contributing 34% of the total GDP in FY 2012/13. In terms of numbers, out of the 5.4 million households, 3.8 million households or about 71% are farming households, according to the National Agriculture Census (NAC, 2011/12). Since the last Agricultural Census 10 years ago, half a million agricultural households have been added. The total agricultural land is about 2.5 million hectares; about 30% of which is irrigated (Pant, 2013). The average size of holdings is down to 0.68 hectare from 0.8 hectare in 2001/02. There were 7.2 million cattle heads in 2012 (MOAD, 2012).
- Agriculture is characterized by traditional farming methods, small land holdings and high dependence on monsoon rains for irrigation. Most of the farming households are subsistence farmers who consume what they produce; only 13% of produce is sold in the market (The World Bank). Rice is the main cereal crop; others are wheat, corn, barley and millet. Together, these crops account for about 75% of cultivated area (Pant, 2013).

Table 3: Cereal production (Metric Tons)

Food Crop	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Rice	428,987	4,209,279	3,680,838	4,299,246	4,523,693	4,023,823	4,460,278	5,072,248
Corn	1,716,042	1,734,417	1,819,925	1,878,648	1,930,669	1,855,184	2,067,522	2,179,414
Wheat	1,442,442	1,394,126	1,515,139	1,572,065	1,343,862	1,556,539	1,745,811	1,846,142
Barley	29,341	27,786	28,293	28,082	23,224	27,587	30,240	34,829.8

Source: Ministry of Agriculture Development, 2012

Issues in Agricultural Sectors

1. **Land Use:** Small and fragmented land holdings make large scale operation and commercialization difficult. Similarly, delay in implementation of land use policy has resulted in more of the agriculture land being developed for non-agriculture purposes, e., g., for residential use. The real estate bubble in Nepal, fuelled in part by growth in remittances and credit, accelerated this process. Some of the families that were displaced during the Maoist conflict have not returned to their home towns; as a results some of the productive land has not been cultivated.
2. **Labor:** The unprecedented growth in foreign employment has led to shortage of workers in agriculture (Shishido, 2011). As a consequence, agricultural production has declined in recent years. Import of food items has gone up, partly attributed to the lack of workers. Even in Terai plains with fertile land, agriculture is becoming increasingly dependent on labor from across the border.
3. **Improved seeds:** Higher yielding and better quality seed is critical in raising yield and productivity. Yet easy availability of better seeds is still a problem in Nepal. There have been cases where farmers have planted what they were told were better quality seeds yet the crops did not produce any.

4. **Fertilizers:** Timely and adequate supply of fertilizers is another issue that is holding back agriculture production in Nepal. Farmers are not always able to get fertilizers on time for planting season. In fact, the lack of availability of fertilizers along with delayed monsoon was the primary reason behind drop in cereal crop yields in FY 2012/13.
5. **Credit:** Credit is vital not just for supplementing working capital needs of farmers, but also for smoothing consumption over time. To those without a regular source of income and savings, availability of easy credit at a reasonable cost is very important. Many farmers in Nepal do not have access to credit because banks or other financial institutions are not available in the rural areas. Even where banks are present, getting a loan is cumbersome process. Furthermore, interest rates are high.

6. **Infrastructure:** Lack of irrigation and storage facilities, access to market and lack of distribution channels are some of the major infrastructure-related problems in Nepal.
- a. Only about 30% of cultivated land is irrigated; the rest depend on monsoon. The dependence on monsoon rain makes farming unpredictable and raises risk for farmers.
 - b. lack of roads makes transport of seeds and fertilizers difficult. Once the crops or produce are harvested, poor connectivity to cities or places where there is demand means farmers cannot transport their harvest to markets. So distribution is a big problem.
 - c. Lack of storage facilities further compounds this problem—seasonal and perishable items either have to be stored in controlled temperatures or sold quickly. Fruits and vegetables in some parts of the country go to waste as they can't reach markets at all or markets in time. One example is the abundance of apples in Jumla that cannot find markets due to poor transport infrastructure.

Sectoral performance - Industry

- Industrial sector in Nepal is relatively small. The major industrial sectors classified according to Nepal Standard Industrial Classification (NSIC) are;
 1. Construction,
 2. Manufacturing,
 3. Electricity gas and water and
 4. mining and quarrying.

Added together, they represent about 15.2 % of total GDP in FY 2012/13 (CBS, 2014). Most of the manufacturing industries are small, low-tech operations that process agricultural products, produce construction materials (like cement, iron rods, etc.), manufacture carpets, garments for exports or produce household items.

industrial sectors (NSIC) and share of GDP

Industrial Classification	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14P
Agriculture, forestry & fishing	31.72	32.94	35.38	37.06	35.22	33.87	33.09
Mining and quarrying	0.56	0.54	0.53	0.54	0.57	0.61	0.63
Electricity, gas and water	1.95	1.56	1.36	1.24	1.22	1.29	1.21
Manufacturing	7.34	6.97	6.34	6.24	6.34	6.36	6.08
Construction	6.95	6.79	6.91	6.93	6.86	6.91	6.75
Wholesale and retail	13.51	13.22	14.40	13.90	13.79	14.50	14.95
Transportation, storage and communication	9.86	9.86	8.52	8.20	8.51	8.91	8.74
Financial intermediation	4.30	4.16	4.12	3.88	4.07	3.94	3.76
Real estate, renting and business activities	9.45	8.69	8.38	8.23	8.57	8.78	8.43
Education	6.25	6.67	5.49	5.25	5.69	5.81	6.42
Health and social work	1.41	1.46	1.38	1.32	1.42	1.41	1.48

Source: CBS, 2014. P= projection

Foreign Employment in Nepal

- Foreign employment has emerged as the largest component of services sector in recent years.
- Up until the 1990s, it was very small both in terms of the numbers of people leaving the country and the amount of remittance that they sent.
- In the last decade, there has seen a tremendous growth in foreign employment resulting in billions rupees in remittance inflow.
- The top destinations for Nepali workers are Korea, Malaysia and the Gulf countries namely Saudi Arabia, United Arab Emirates, and Qatar (Nepal Migration Survey 2009).
- *Karobar Daily* reports that, on average, 1,748 youths (in FY 2013/14) are going abroad every day.

Facts about foregin Employment

Here are some statistics that underscore the scale and growth of foreign empolyment and remittances in Nepal:

- **Almost half of households have at least one migrant abroad or a returnee.**
- **One third of working male population may be abroad.**
- **Measured by remittances as share of GDP, Nepal ranks third.**
- **Remittance is the largest source of foreign exchange, accounting for 25% of GDP in 2012**

Source: Shishido, *Large-scale Migratons and Remittances: benefits and Cost; Migration and Remittances: Recent Developments and Outlook*, The World Bank 2014

Monetary policy

- Monetary policy is one of the effective macroeconomic policy used by monetary authority/ central bank (Nepal Rastra Bank) to control over the money supply as an instrument for achieving the objectives of general economic policies.
- Formulation, operation, implementation and evaluation of monetary policy are designed by the central bank under the rules and regulation of the government.
- Government uses monetary policy to accelerate economic growth and development, full employment, price stability and economic stability.
- Monetary policy can change quantity, quality, and availability cost of money as well as rate of interest, investment, employment, output, income etc. further to balance economic growth rate and development.
- Monetary policy can be defined as as the management of expansion and contraction of volume of money in circulation.

Types of Monetary policies

1. Expansionary monetary policy

1. The monetary policy which generally expands money supply and credit in an economy are called expansionary monetary policy. Generally, to increase economic activities such as trade, commerce, industries and infrastructure development, in developing countries expansionary monetary policy is used. Expansionary monetary policies are used for;

1. Purchase of bonds and treasury bills in Open Market
2. Lowering the discount rates or bank rates
3. Lowering the required reserve ratio.

2. Contractionary monetary policies:

1. contractionary monetary policy is used to control the hyper-inflation. It reduces the volume of money circulation in the market. Contractionary monetary policies are used for;

1. Selling the bonds, securities and treasury bills in Open market.
2. Increasing the discount rate / bank rate
3. Rising the minimum required reserve ratio.

Background of Monetary policy FY16/17

- As envisaged by the Nepal Rastra Bank Act, 2002, Nepal Rastra Bank (NRB) has been formulating and implementing monetary policy for attaining the objectives of price stability as well as external and financial sector stability.
- The monetary policy for 2016/17 is also directed to contain inflation originating from aggregate demand side and maintain external balance as well as financial sector stability.
- In addition, the monetary policy has also focused on increasing credit flows to the productive sectors for sustainable economic and financial sector development, and on expanding financial services and financial inclusion.
- In 2016/17, the overall macroeconomic situation of Nepal remained satisfactory. Particularly, improved performance of agriculture, post earthquake reconstruction projects resulting in increased public spending, services sector and improved power supply led to a higher economic growth in 2016/17 compared to the last five years at 7.5%
- World bank.

- Widening of trade deficit continued as a consequence of higher growth of imports relative to exports. However, significant amount of remittance inflows and foreign assistance contributed to maintain a surplus in current account as well as in balance of payments (BOP).
- In 2016 banking sector witnessed liquidity crisis due to investment in unproductive sectors, therefore Central Bank reviewed interest rates to attract deposits, discourage investment in unproductive sectors such as purchasing automobiles, housing loan, etc.
- The exchange rate of Nepalese currency with the US dollar and other convertible currencies, which had depreciated during the first few months of 2016/17, remained stable in the later period.
- **Further Reading MONETARY REVIEW NRB.**

Monetary policy highlights FY 14/15

Tourism policy Nepal-

- Nepal is famous in global tourism map for her unique natural beauty, ample bio-diversity, multi-culture, multi- ethnicity, multi-linguist, multi-religion and social diversity and historical and cultural richness.
- In the light of unprecedented development in ICT, turning the world into a global village, Nepal must upgrade its capacity to present its national heritages and resources in the international tourism market to attract international tourism market to get the benefit.
- Tourism being itself a backbone of the economy, it is necessary to diversify and expand the tourism industry to improve employment opportunities in the sector to improve the living standard of the people.
- For this on the one hand necessary preservation and development of national heritages is required and on the other hand development of all infrastructures related to tourism industry including development of international airport is equally required to improve the tourism service qualitatively and quantitatively.
- The tourism industry is growing very rapidly and Nepal has tremendous potential for tourism development because of its unique natural and cultural heritage.

Background

- In this context, this tourism policy has been formulated with the aims of:
 - increasing national productivity and income;
 - increasing foreign currency earnings;
 - creating employment opportunities;
 - improving regional imbalances and projecting the image of Nepal more assertively in the international arena; through the development and diversification of the travel and tourism industries.

Current status of tourism policy in Nepal

- There is cooperation between public and private sectors for preservation and promotion of tourist destination spots, tourism heritages, security of tourists, qualitative and quantitative improvement of service and facilities and development of necessary infrastructure
Coordination areas;
 1. Preservation, promotion of tourist destination and tourism heritages.
 2. Security of tourists
 3. Qualitative and quantitative improvement of service and facilities
 4. Development of necessary infrastructure

- However, there seems lack of an effective coordination between all parties concerned with the development of infrastructures such as road, electricity, drinking water and communication in policy related matters; regarding
 - Allocation and utilization of resources
- Lack of sustainable development of tourism infrastructure, inability to address issues related with operation and sharing of benefits generated from tourism amongst the local people and their roles have resulted in underutilization of available resources and facilities.
- Confusion amongst the policy makers as whether to develop the infrastructures to attract tourists first or first tourist and develop infrastructures.
- Lack of expected coordination between tourists, local community and civilians is another problem.
- Reconstruction of the historical and monumental heritages destroyed 2015 massive earthquake is another priority to attract tourists.

Objectives of Tourism Policies

1. To develop tourism as an important sector of the national economy by developing linkages between tourism and other sectors.
2. To diversify tourism down to rural areas so as to improve employment opportunities, foreign currency earnings, growth of national income and regional imbalances.
3. To improve natural, cultural and human environments of the nation in order to develop and expand the tourism industry.
4. To maintain a good image of the nation in the international community by providing quality service and a sense of security.
5. To develop and promote Nepal as an attractive tourism destination.

Highlights of Tourism policy – Nepal

- The participation of the private sector will be sought to the maximum extent for development and diversification of tourism products.
- The involvement of government will be primarily directed towards infrastructure development. Apart from this, Nepal government will maintain its role as coordinator and motivate for the growth of the travel and tourism industries.
- Participation of the Nepalese people in the integrated manner will be carried out for environmental conservation programmes which contribute to sustainable tourism development.
- Existing tourism infrastructure and facilities will be upgraded. Priority will be given to developing new tourist destinations, particularly in rural areas.
- Popular religious tourism sites will be improved and promoted in order to develop religious tourism.
- Nepal will be developed as a centre for adventure tourism.
- Tourist service and facilities will be encouraged to upgrade in quality. Special efforts will be made to make Nepal a secure place for tourists.

- Due attention will be paid for improving regional imbalances while developing tourism.
- Competitive tourism promotion and marketing will be launched in tourist originating markets to establish Nepal as a major tourist destination.
- Linkages will be established between tourism and agro-based as well as cottage industries. Emphasis will be placed on developing these related sectors simultaneously.
- Local investment will be encouraged in service-oriented, travel and trekking agency businesses in which local investors have proven capability.
- Foreign investment, including joint ventures, will be promoted in areas which transfers skills and technology or in capital intensive industries like hotels and resorts.
- The National Civil Aviation Policy will be implemented as an integral part of Tourism Policy.

Highlights of tourism policy – Nepal

- Tourism investment will be diversified and channeled for the creation and improvement of infrastructure in new destination areas.
- The private sector will be motivated to make systematic and effective use of existing infrastructure in order to develop sightseeing packages of cultural and religious sites, high Himalayan ranges and places with outstanding natural beauty.
- The private sector will be motivated to operate environmentally friendly recreational, adventure activities based on water, land and air in various parts of Nepal.
- Services and facilities will be expanded in temples, monasteries and other religious sites to attract more domestic tourists on the one hand, while attempting to develop such sites as international religious centres on the other.
- Wildlife tourism will be developed and promoted in various geographic areas, in recognition of the bio-diversity that exists in the nation.

- New trekking routes and climbing peaks will be opened, in a phased manner, with a view to spreading mountain tourism on a regional basis.
- Coordination will be maintained with neighboring countries to enhance cross border tourism activities based on mutual benefit.
- Innovative and promotional products such as conference tourism, cultural and youth tourism, international sports competitions etc. will be specially encouraged.
- Rural tourism will be encouraged. Rural communities will be motivated to launch various programmes that contribute to the growth and promotion of rural tourism.
- National environmental guidelines for tourism will be formulated and subsequently adopted to minimize adverse environmental impacts from tourism.
- Local environmental codes will be designed in conformity with prevailing international conventions and national guidelines pertaining to the environment. +

- Places with high tourism potential under the ownership of the government will be leased out to private entrepreneurs for development of environmentally friendly resorts.
- The private sector will be allowed to invest in infrastructural services and facilities for tourists. However, certain standards will be fixed for such infrastructural services and facilities.
- Tourism entrepreneurs will be encouraged to adopt codes of conduct through their respective professional associations for enhancement of quality in the services and facilities they offer.

Challenges of tourism in Nepal

1. Unable to employ the possibilities of equal and proportionate development of infrastructures in different tourist destinations by identifying them as opportunity. Similarly, to distribute the profit from this sector to concerned authorities in a proportionate manner had been challenging.
2. Not able to expand the services and facilities and thus were unable to get benefited because of being unable to provide appropriate practical trainings to the manpower related to the tourism industry.
3. Unable to get expected benefits from the services and goods used by tourists due to the unavailability of local production. Similarly, it was a challenging task to run tourism related programs in environment friendly manner due to internal controversies.
4. Though there were many possibilities and opportunities of tourism development it had become a challenging task to monetize the benefits by standardizing the development. Similarly, being unable to do the proper evaluation of benefits received from tourism campaigns and carry on sustainable development programs for eradication of rural poverty.

5. Not able to effectively run the task of conserving natural and artificial heritages in the lack of sufficient resources, statistics and communication.
6. The tourism industry is not getting priority in the investment as associated governmental, non governmental and private investors were involved more on the promotional activities rather than in the development of infrastructures.
7. Not being able to run programs in a proportional manner with road, drinking water, electricity, communication which is directly related to infrastructure development.
8. To publicize about Nepal, its natural beauty, biodiversity, and places to visit was very difficult due to the lack of advertisement and communication.

Tourism Statistics - ACTIVITY

- STUDENTS ARE REQUIRED TO COLLECT CURRENT DATA AND MAKE PRESENTATION
- Number of tourists arrived
- Means of transportation
- Purpose of visit
- Average length of stay in Nepal
- Gender wise
- Which age group visited
- Places of visit
- Per-head expenditure

Background of Industrial policy of Nepal

- Nepal's industrial policy can be roughly divided into two time-periods, pre-1985 and post-1985. Before 1985 policies were guided by inward looking protectionist strategies. Domestic industries were treated as 'infant industries' and were protected from foreign competition by high tariff and quota restrictions. The government was directly involved in the economy and provided essential products and services.
- Liberalization initiated in 1985 and accelerated after the 1990s, sought to modernize the economy and accelerate structural changes by creating an environment appropriate for private sector participation. The government began to withdraw from the economy, and policies were implemented to promote private and foreign investment.

- A new liberal Industrial Policy was formulated in 1992. One of the major objective of the Industrial Policy of 1992 was to privatize public sector industries.
- The policy seeks to create an open and competitive economy by curtailing government interference in price fixing of industrial goods.
- In addition, the policy aims to strengthen linkages between manufacturing and agriculture sectors and promote labour intensive, local resource based, export oriented industries.
- Private sector participation is also encouraged in community and private forest development, generation and distribution of hydro-electricity and in construction and management of nursing home, hospital, power propelled railway, roads, bridges, tunnels, ropeways etc.

Industrial Policy – History

- The Industrial Policy, **1992** was framed with the objective of accelerating industrial sector. However, there has been no significant progress in our state of industrial development even after the passage of a long time of framing of the policy.
- Industrial development is rapidly going on all over the world including neighboring countries one after another, however, this sector could not progress in its expected pace in Nepal.
- in this backdrop that the new Industrial Policy, **2011** has been formulated with the objective of bringing positive changes in overall economic and social sectors of the country by means of rapid industrial development minimizing the past weaknesses.
- It is expected that through this Policy, activities of industrial development will be increased; employment opportunities will be massively created and the level of income of people will be increased, so that contribution of industrial sector in economy of the country will be at the forefront.

Efforts in the past

- In order to achieve the objectives set by the Industrial Policy, 1992, it was first of all necessary to transform the economy, which substantially relied on agriculture, to industrial economy; therefore, efforts were made to concentrate governmental activities concerning industrial development towards that direction.
- Industrial Enterprises Act, 1993 enacted as directed by the Industrial Policy, 1993, has created legal basis for development of industries by making available additional facilities and concessions such as income tax, sales tax and excise to the prescribed industries of various classes and located in various regions having them classified and prioritized with a view to move forward industrial development with high priority.
- However, because of various reasons, the facilities and concessions provided by the Industrial Enterprises Act, 1993 could not be continued and those facilities and concessions were gradually minimized and repealed with the first amendment to that Act, the Income Tax Act, 1991 and the Fiscal Acts enacted year by year.

- Despite of these facts, the efforts to make the industries competitive by making available to them other institutional and basic infrastructure services were continued.
- Accordingly, the National Productivity Council was formed as an institutional arrangement and the concept of Special Economic Zone was put forward towards infrastructure development.
- It was expected that these measures would create conducive and competitive atmosphere for establishment and operation of industries, and industrial productivity and employment opportunities would be enhanced.

- In order to make more contribution in industrial development, various efforts were made such as
 - capacity development of labourers,
 - enhancing managerial skills,
 - encouraging the use of new technology,
 - increasing sectorial investment,
 - making provisions for restoration of sick industries,
 - imparting trainings for entrepreneurship promotion and making necessary institutional arrangement for providing services and facilities from one window without hassles.

Current Status of Industrial Policy of Nepal

- Despite of various efforts made in the past for industrial development, the stark reality before us is that there has been no industrialization in the expected pace in the country.
- The **contribution of industry sector in the gross domestic product** could not reach even ten percent **10%, which is a challenge before us.** Economy of the country even today is excessively dependent upon traditional agricultural system and remittance.
- Though there is high **potentiality of development of industries**, the available resources, means and potentialities **could not have been exploited** due to lack of appropriate management capacity.
- This has **resulted in non-use of available resources and raw materials** and the country has been facing various problems such as extreme unemployment and semi-unemployment due to which, the workforce available in the country is **compelled to resort to foreign employment at minimal wages.**

- Nepal being a member of the WTO and its connectivity with world market has expanded. Because of rapid industrialization and competition going on in neighboring countries, Nepali industries have to enhance productivity and demonstrate professional acumen taking into consideration the global competitiveness.
- Similarly, Nepali industries have to ensure quality of products, transparency in commercial transaction, regular studies of market trends and have to make extra efforts for capturing markets.
- Since there is no environment for protection of industries from governmental level, Nepali industries have to be promoted by way of activities for industrial promotion such as trainings, exchange of information, creating investment friendly atmosphere and industrial fairs.
- It is expected that from implementation of this new Policy, which has been prepared with timely review of the existing Policy, large- scale industries will be established in the country and thereby, employment will be increased and with development of micro enterprises, cottage and small industries, self-employment will be promoted, Nepali labour and skills will be utilized and pace of industrialization will be accelerated in the country.

Objectives of Industrial policy 1992

1. To increase the contribution of industrial sector to GDP through enhancement of industrial production and productivity.
2. Emphasize on the development of industries utilizing locally available resources.
3. Emphasize on the development of export oriented industries.
4. To reduce the pressure of unemployment and underemployment in the agricultural sector through the development of industries.
5. To adopt appropriate industrial policy for balanced regional development of the country. To achieve this objective government has declared certain sectors, regions as tax holiday areas of investment.
6. To attract Foreign Direct Investment.
7. Create investment friendly business environment by lower tax rates on import of raw material from neighboring countries.

Industries requiring permission

- Industries producing explosives including arms, ammunition and gunpowder, security printing, bank notes and coin industries.
- Cigarettes, bidi, cigar, chewing tobacco, khaini industries and industries producing goods of a similar nature utilizing tobacco as the basic raw material and alcohol or beer producing industries.

Restricted areas for FDI clause (a)

1. Cottage industries.
2. Personal service (such as hair-cutting, beauty parlor, tailoring and driving training etc.).
3. Arms and Ammunition industries.
4. Explosive, gunpowder.
5. Industries related to Radio active materials.
6. Real Estate business (except construction industries).
7. Motion picture business (produced in national languages and the language of the nation).
8. Security printing.
9. Currencies and coinage business.

Restricted areas for FDI clause (b)

1. Retail business.
2. Travel agency.
3. Trekking agency.
4. Water rafting.
5. Pony trekking.
6. Horse-riding.
7. Cigarette, bidi (tobacco), Alcohol (excluding those exporting more than 90%).
8. Internal courier service.
9. Atomic energy.
10. Tourist lodging.
11. Poultry farming.
12. Fisheries.
13. Bee-keeping.
14. Consultancy services, such as management, accounting engineering and legal services.

Trade policy-1992

1. Public sector works as a catalyst and facilitator to expand the role of private sector.
2. No Licenses required for exports and import of any products other than banned or quantitatively restricted items, Banned and quantitatively restricted items.
3. The duty drawback scheme available for the refund of import duty paid on imported raw materials and intermediate goods required for the production of exportable products.
4. Export Promotion Zone (EPZ) and Special Economic Zone (SEZ) are being established in different location.

Trade policy highlights 1992

5. No Duty levied on raw materials and auxiliaries imported by industries in EPZ./SEZ
6. Foreign currency required for import will be made available by the commercial banks at the market rate.
7. Exporters allowed retaining their export earnings in their own foreign currency account.
8. No quantitative restrictions on the exportable products carried by tourists while returning from Nepal.

Products banned for import

1. Products injurious to health
 1. Narcotic drugs like, opium and morphine
 2. Liquor containing more than 60 percent alcohol
2. Arms and ammunitions and explosives (except under import license of Government of Nepal)
 1. Materials used in production of arms and ammunition
 2. Guns and cartridges
 3. Capes without paper
 4. Arms and ammunitions, and other explosives
3. Communication equipment: wireless, walkie-talkie, and similar other audio communication equipment's (except under import license of Government of Nepal)
4. Valuable Metals and Jewelries (except permitted under baggage rules)
5. Beef and beef products
6. Any other product notified by Government of Nepal Gazette.

Products banned for export

1. Articles of Archaeological and Religious Importance
 1. National and foreign coins of archaeological value.
 2. Idols of gods and goddesses, palm leaf inscription (Tad Patra), plant leaf inscriptio (Bhoj Patra).
 3. Scroll (Thanka paintings) of historical importance.
2. Conserved wildlife and Related Articles
 1. Wild animals.
 2. Bile and any part of wild animals.
 3. Musk.
 4. Snake skin, Lizard skin.
3. Narcotic Drugs Narcotic Marijuana, Opium, Hashish (as defined in the Single Convention on Narcotics, 1961).

Products banned for export

4. Articles of Industrial Importance

1. Explosives material and fuse or materials needed there for.
2. Materials used in the production of arms and ammunition.

5. Industrial Raw Materials

1. Raw hides and skin (including dry salted).
2. Raw wool.
3. All imported raw materials, parts and capital goods.

6. Other products

6.1 Mamira.

6.2 Log and timber

Fiscal Policy17-18

- Total budget Rs. 1278 Billion
- Recurring budget : 803 billion
- Development budget 335 billion
-

Fiscal Policy

- Fiscal policies are concerned with taxation, public expenditure and public debt of government.
- Fiscal policies are reflected in the development plans and annual budget.
- Fiscal policies have immediate impact on economic performance as fiscal policies affect profitability (taxation or subsidies).
- Fiscal policies directly affects overall economy.

Objectives of Fiscal Policy -Nepal

- Achieve poverty reduction, macroeconomic stability, growth and equity through judicious access to resources.
- Create employment opportunities through economic reforms and investment promotion (taxation and subsidies)
- Improve public expenditure management.
- Reform tax system and tax bases.
- Tariff rationalization by improving valuation system and reducing exemption.
- Strengthen tax administration.
- Increase effectiveness of foreign aid.
- Reduce fiscal deficit
- Liberalize foreign exchange regimes
- Phase out subsidies.

Objectives Fiscal Policy highlights 2017/18

- To implement the constitution
- To revive the economy affected by the earthquake and the supply system disruption
- To attain high economic growth through increasing productivity and production.
- To promote domestic and external investment
- To expand economic activities, increase income and employment and reduce poverty,
- To create opportunities, capacity building and social protection
- To provide quality social service to all Nepali People

Priorities of Fiscal policy 2017/18

- Post earthquake reconstruction, rehabilitation and new construction
- Hydro power generation, transmission line expansion and distribution
- Road, airport, irrigation,
- Agriculture industry, tourism, forest
- Urban and local infrastructure
- Education, health, drinking water, sanitation,
- Social security
- Service delivery, corruption control and governance reform

- Amend NRB Act, BAFIA, Banking Offense Act, Insurance Act
- Set – up “Startup Fund” of NPR 500 Crore for inventor, entrepreneur, person having idea and lacking investible funds
- Gradual implementation of international commitments against money laundering
- Formulate master plans for development of Pashupatinath and Lumbini
- Government to assist construction of ethnic museum
- Expand services of Radio Nepal to all 75 districts
- To construct one library and a science lab in each high school
- Annual Rs 2,000 health allowances to elderly citizen above 70 years
- Increases salaries of government employees by 10 percent
- Developing infrastructure for payment of taxes online

Subsidies by fiscal year 2014/15

- Agricultural credit from commercial bank will be provided @ 6% at the maximum. GoN will bear 4% interest by the fund of Rs 1 Billion
- Allocated Rs 1 billion to the Sana Kisan Bikash Bank to invest on increasing meat production
- Private groups taking loans for commercialization and mechanization of farming by pooling 10 hectares of land in hills or 20 hectares in Tarai would be provided 50 percent subsidy on interest payment. The subsidy will be 75 percent for small and marginalized farmers' cooperatives
- Waiver of principal, interest of loan taken by Martyr's families from govt owned banks up to Rs 1million

Contd.

- Waiver of interest, fine and other charges of loan taken by the families of the disappeared, on payment of principal amount
- Waiver of interest, fine and charges of loan taken by individuals, who started business with loan up to Rs 1 million but died or the business was destroyed or shut down during the course of conflict, on payment of 25 percent of interest amount along with principal
- Allocated Rs 50 million to provide grant on seeds and cold storage building for cooperatives

Fiscal policy 2014/15 review

- On July 13 the government unveiled a Rs 618 billion annual budget for the fiscal year 2014-15 with significant investment promised in energy, infrastructure, agriculture and irrigation sectors.
- This is the first time that the government succeeded in introducing full-fledged budget on time in the last four years. The delayed implementation of the budget had resulted in economic stagnation, as economic activities could not speed up in the absence of a spur from the government, the largest spender. Though timely budget announcement this year is expected to change the scenario for the better.

1. **Expansionary Fiscal Policy**

- Considering the Rs 596 billion ceiling put forward by the National Planning Commission (NPC) the budget was bigger-than-expected. The Minister crossed the recommended ceiling mostly because of two reasons.
 - Despite his reluctance, he had to concede to the pressure of the MPs from the largest partners of the ruling coalition – Nepali Congress and CPN-UML – to earmark Rs 10 million for infrastructure project in each constituency.
 - Next to it, the budget increased the amount of constituency development fund, provided to each of the 601 MPs for funding various development activities in their respective constituency as per their discretion, from the erstwhile Rs 1 million to Rs 1.5 million per MP. Adding to it, the budget made upward revisions in the civil servants' salary and other perks as well.

- Despite being flexible in its spending, the budget did not make any major hikes in the taxation rates.
- Expansionary budget is expected to accelerate economic growth, help in employment creation and in poverty reduction. However, analysts claim that this budget comes with many risks. It may create demand pressures and fuel inflation. Analysts claim its forecast of a 8 percent inflation rate to be unrealistic.

2. High Hopes on policy Reforms

- Hopes from the five-time Finance Minister were (and are) high among private investors and the general public. There are expectations from different quarters for tangible economic reforms that include kick-starting investment climate, improving business climate and putting the country back on a path of faster growth.
- it seems the budget has put effort in reforming policies. “It is essential to develop the country as an attractive investment destination to achieve high, sustainable and wide economic growth. The budget promises that various reform measures will be carried out in the coming Fiscal Year in order to increase domestic and foreign investment,”.

3. **Upbeat Private Sector-**

- The main achievement of this budget announcement is that it has won back the lost confidence of the private sector.
- The two largest private sector umbrella organizations – Federation of Nepalese Chambers of Commerce and Industry (FNCCI) and Confederation of Nepalese Industries (CNI) – appreciated the budget saying it is pro-private sector and that the government has largely addressed many demands of the private sector.
- Both organizations welcomed some major initiatives taken by the government such as promise to end power crisis in three years, develop infrastructure required for industrial sector, promote entrepreneurship through creation of venture fund, and build special economic zones, among others.

- “The budget, which aims to lay a strong foundation for graduation of the country from the group of least developed countries to that of developing nations by 2022, has focused on development of energy and agriculture sectors, human resources and entrepreneurship, which the FNCCI admires,” FNCCI said.

Challenges of current fiscal policy

- **Budget Implementation**
- Nepali politicians have been unpopular due to the trend of making big promises and delivering less. Despite some weaknesses, the budget has taken a positive direction but we need real action to convert intent into reality.
- Private sector is also cautious on this. For instance, FNCCI has said in its statement, “the business climate will definitely improve only if the programmes and reform agenda spelled out by the budget are truly implemented.” Similarly, CNI has also underlined on the need to focus on budget implementation to reap maximum benefits from the new policy and reforms announcements made by budget.
- For effective implementation of this budget, this government should be able to avoid major obstacles such as political pressure and bureaucratic hurdles, among others.

History of Privatization policy 1994

- Privatization is an important agenda for Nepal's economic reform.
- In the 1980s, a new wave of thought and range of alternatives for public sector and improvements were witnessed throughout the world.
- An era of privatization emerged as an alternative strategy for public sector reforms. Many developing countries in Asia also initiated privatization moves.
- In 6th Five year plan, the concept of privatization was introduced for the first time in Nepal's privatization policy and latter in all subsequent development plans privatization was incorporated.

- In 1985 about 12 public enterprises were planned for privatization however this plan could not be materialized and the then government decided to sell the shares to common people at a premium price.
- As a result of this facts Ministry of finance created a Privatization Cell in 1989 to plan and implement the privatization program.
- In 1991, a policy paper on privatization was issued by the government which outlined policies, modalities, and administrative mechanism for privatization of public enterprises.
- Finally, in 1994 Privatization act came into affect.

History contd.

1. Phase 1 Privatised companies

1. Bhrikuti Paper Mills
2. Harishiddhi brick and tile factory
3. Bansbari leather and Shoe Factory

2. Phase 2

1. Nepal Film Development company
2. Balaju textile Industry
3. Raw Hide collection and development corporation
4. Nepal Lube Oil
5. Nepal Bitumen and Barrel udhyog

3. Phase 3

1. Agriculture Tools factory
2. Nepal Foundary
3. Bhaktapur brick
4. Raghupati jule Mills
5. Nepal bank Ltd
6. Nepal Coal Ltd.

4. During 2000

1. Tea Development corporation
2. Butwal Power Company
3. And Liquidated four privatized companies
 1. Agriculture Tolls Factory
 2. Cottage and Handicraft sales emporium
 3. Hetauda Textile
 4. Birgunj Sugar Factory

Definition

- The participation of private sector in the management of enterprises or selling it or giving on lease or transferring of government ownership to private sector, employees, or desirous groups either partially or fully in such enterprise.

Procedures of privatization in Nepal

SOCIO CULTURAL ENVIRONMENT IN NEPAL

Components of Socio cultural environment

1. Social environment

1. Demographic factors

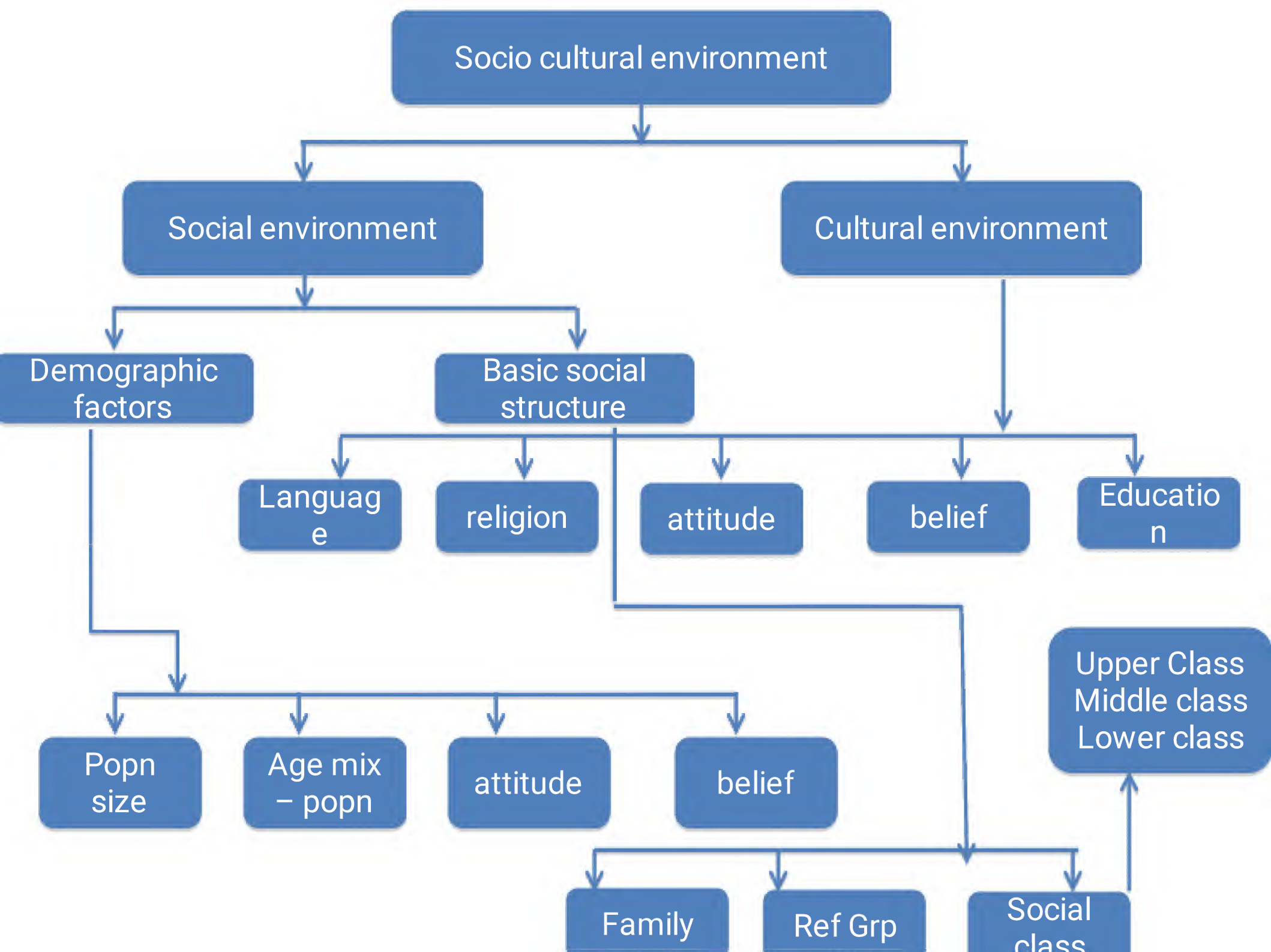
1. Population size
2. Age mix of population
3. Urbanization of population
4. Migration of population

2. Basic social structure

1. Family
2. Reference group
3. Social class
 1. Upper class
 2. Middle class
 3. Lower class

2. Cultural environment

1. Language
2. Religion
3. Education
4. Attitudes
5. Beliefs



Family Structure

- Family is one of the social organization. It is an institution, which is based on kinship.
- The nature, size and composition of families differ from society to society .
- In some societies, a family means the parents and their children whereas; in other societies, a family includes all relatives both by blood and marriage. And in Nepal family has very strong ties.
- Family affects the purchasing decision in Nepal. It is an important consumption unit.
- Size of family, affects the consumption units, larger the family size, the consumption tends to be higher. E.g. Joint Family consist of larger family members. With large family members the consumption tends to be higher. And opposite is the case with nuclear family.
- Nature of family structure affects decision making.

Family Structures In Nepal

1. Joint Family

1. Joint Family system is a unique feature of the Nepalese society. Joint family is an extended family with the senior most male member as the head and others as the members. The feeling of responsibility of each member to the family is very strong. Member of the family share sorrows and joys and contribute in all possible ways to the prosperity of the family. (P.R. Pant)
2. In Joint families, the head of the family serves as the decision maker.

- Advantages of Joint Family system

- Strengthens family ties.
- Provide social security.
- Sharing.
- Financial security – even if some members are unemployed, the employed members take care of them.

- Disadvantages

- It discourages financial incentives to work.
- Favoring their own immediate family members,
- High absenteeism at work. Conflict at work.

Contd.

2. Nuclear Family system : a family consisting spouse and their offspring.

- Nuclear families have now become quite common in the nepalese societies, specially in urban areas.
- With the improved level of education, people have better employment opportunities. Women enjoy equal status with men and most of them supplement family income by their own earning.

- Discussion ? Joint Vs Nuclear system
- The advantages ?
- Disadvantages?

Social class structure

- According Agrawal, G.R, class structure
 1. Upper class : a very small segment of the Nepalese popn. Lavish life style. Their demand for high priced commodities. Very high income. Aristocrats, Business Tycoons.
 2. Middle Class : working professional such as doctors, engineers, C. As, Teachers, Traders. Medium level of income.
 3. Lower class : consists half of Nepalese popn. They have low purchasing power. Mannual workers, skilled artisans and lower level employees.
- According to Pant class structure;
 1. The affluent class
 2. The middle class
 3. Lower middle class
 4. The poor

Emerging socio-cultural changes in Nepal

- Growing urbanization and consumer awareness
- Individualized lifestyle and work-oriented outlook.
- More informed and demanding consumers due to growing education.
- Greater acceptance of fashion and lifestyles
- Blending of traditionally defined male-female roles.
- Greater pleasure orientation and material culture.
- Changing family structures – smaller families, less influences of elders, and more dual- career households.
- Growing demand for more effective and prompt public services.
- Equal opportunity for all in all walks of national life.

TECHNOLOGY AND ENERGY MANAGEMENT

CONTENTS

- Business and technology
- Current status of technology
- Technology transfer issues
- IT policy of Nepal
- Natural environmental issues
- Energy situation in Nepal
- Environment and energy management issues in Nepal

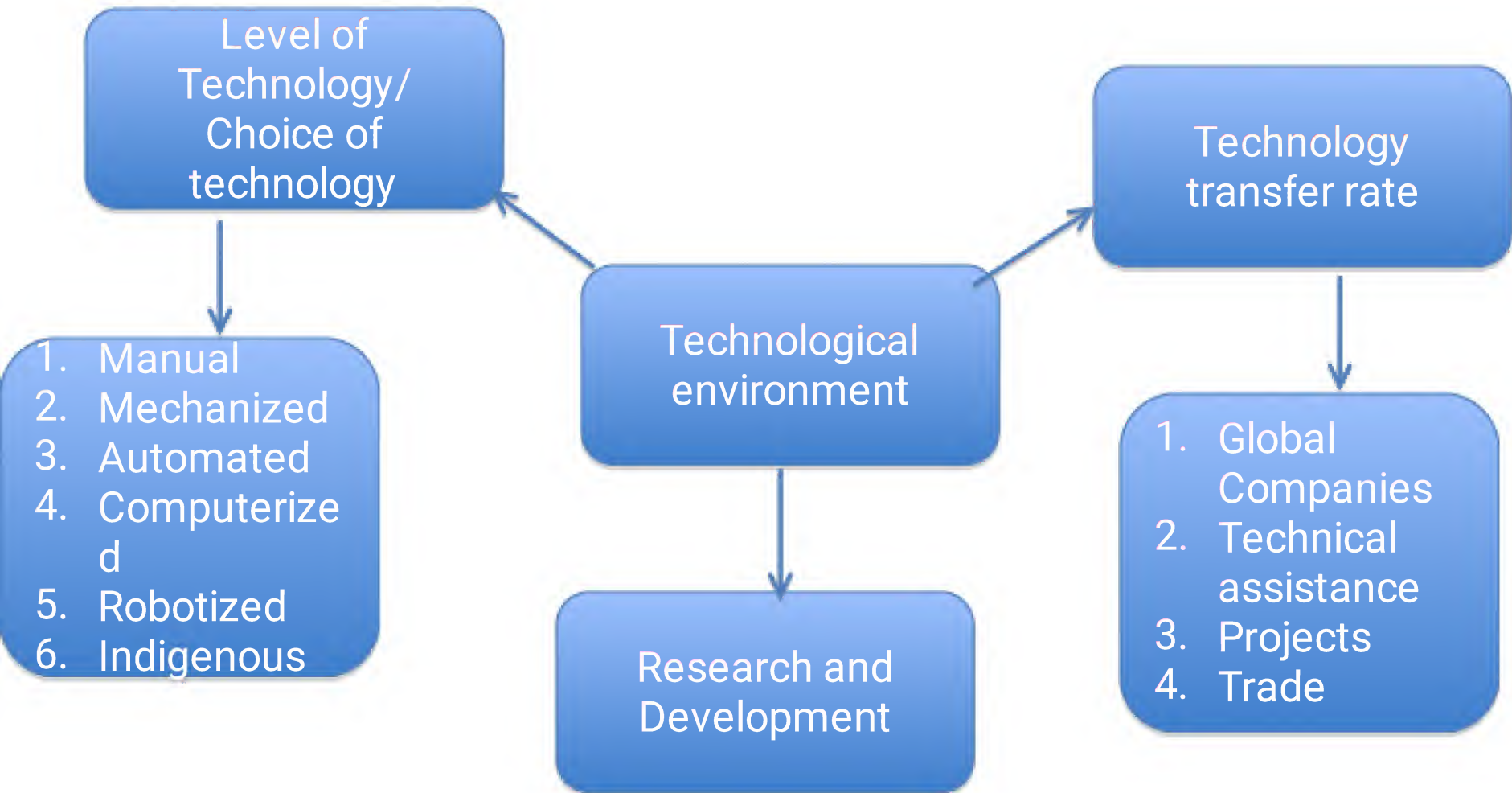
Introduction

- Technological environment consist of the inventions, techniques, and the vast store of knowledge of ways of doing things
- The modern business is characterized by newer and ever-changing technological developments. Today's best technology becomes obsolete tomorrow.
- Technology affects the processing of information in material handling, storage, and transportation.
- Technology customers' need their opinion can be collected and products can be tailored accordingly ensuring high customer satisfaction while optimizing the use of resources.

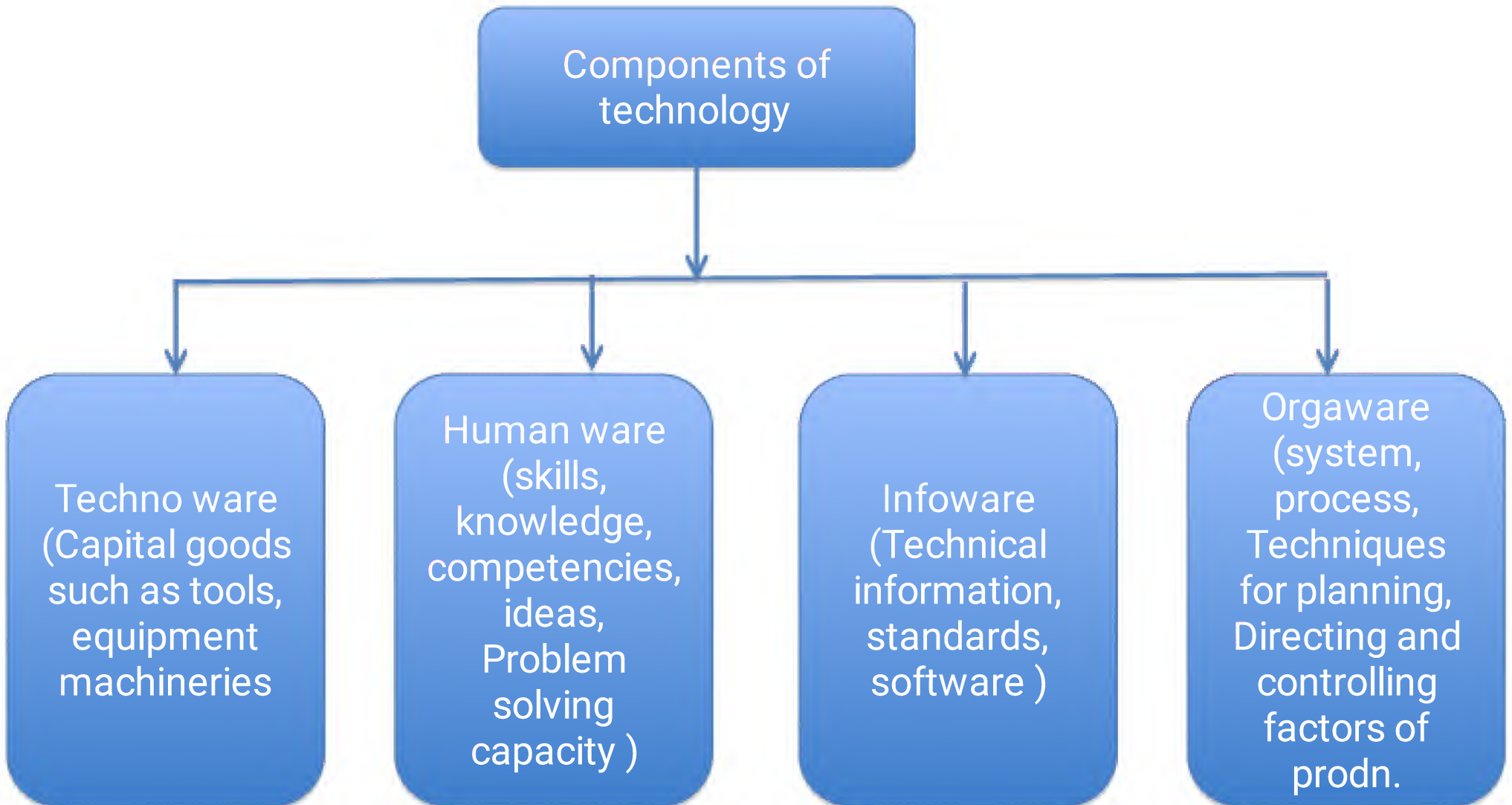
Definition

- According to Griffin (2002), technology is “the set of processes and systems used by organization to convert resources into products or services.”
- According to Bennett, (2002), “ the utilization of materials and processes necessary to transform materials into outputs.”
- Technology is a means of combining four factors of production viz. land, labour, capital, and knowledge. It is an ability to create new things from the blending of these resources.

Components of technological environment



Components of technology



Business and technology

- Business firms must meet the changing needs of the society. For this purpose, they must create market for their new products and services.
- Hence society expects innovative and discoveries from the business firms for better products and improved services.
- To cater the satisfaction to the customers, business firms use all the components of technology such as; technoware, humanware, infoware and orgaware.
- There exists explicit relationship between business success and technology.
- Successful firms tend to adapt the technological changes whereas; unsuccessful firms are the result of ignorance to technological environmental changes.

Relation between business and technology

1. Identifying market opportunities : using different technologies customer survey, feedback can be collected and according firms can identify market opportunities.
2. Product design and testing the designs using technology. – R& D
3. Cost calculation.
4. Material handling
5. Promotion.
6. Transportation
7. E-commerce
8. Conversion of inputs
9. Efficiency, effectiveness – productivity

Level of technology / technological choice

1. Manual technology :

1. Traditional, simple, uses human or animal power
2. Low cost and low volume of production,
3. Depends on human factor
4. Inconsistent quality

2. Mechanized technology

1. Replaces human or animal power with mechanical energy
2. More efficient than manual technology
3. Larger volume of production with relatively consistent quality standard, large volume

3. Automated technology

1. Use of self controlled machines such as using sensors, the machines turn on and off automatically. Refrigerators.

4. Robotics : use of robots in business

5. Computerized technology :

Current status of technology in Nepal

1. Status of Traditional Technology In Nepal
2. Status of Modern Technology in Nepal
 1. Growing use of Modern Technology
 2. Skills base for modern technology
 3. Research and Development spending
 4. Transfer of technology

Status of traditional technology

- Nepal is rich in traditional technology dominating the rural areas. Nepal possess good technical knowledge of traditional technologies in the following fields;
 - Metallurgy, Pottery – statues of bronzes, copper and gold and, pottery
 - Architecture and construction : architecture and civil engineering technology blended with art and culture – temples, pagodas, stupas and palaces
 - Textile manufacturing, dyeing and printing :, dyeing wool, clothes
 - Paper manufacturing : durable and soft handmade papers
 - Food : traditional homemade beverage, preserving meat, fruits and vegetables, preparation of dry foods.

Status of Modern Technology in Nepal

- Modern technology was introduced in Nepal in 1936, with the establishment of Biratnagar Jute Mills.
- But these days Nepal's technological environment is witnessing
 1. a growing use of modern technology
 - IT is flourishing
 - Improved cooking technology is improving
 - Health related technology
 - Application of computers in most of the organization for record keeping.
 2. Skills base for modern technology
 1. In Nepal skill base of technology is low, most of the technologies are operated by foreign workers.
 2. Pool of technical human resource is poor in Nepal
 3. However different universities are offering technical or skill based programs.

3. R & D : Poor R & D by private sectors, Government and universities are involved in R & D, but they are confined to planning lacking implementation.
4. Technology Transfer : Technology transfer is the transmission of innovation from one firm or country to another. Innovation may be a new product, process or working methods or the use of specialized know-how. Technology transfer is improving in Nepal. Most of the technologies are imported technologies introduced by Donor Funded projects and foreign consultants.
 - In recent years FDI is increasing and they are introducing new technology

IT Policy Nepal -2000

1. Declare IT as a priority sector
2. Follow a single door system for the development of IT
3. Prioritise research in IT
4. Create conducive environment to attract private sectors investment in IT
5. Expand the network area nationwide.
6. Assisting and encouraging educational institutions to develop IT manpower
7. Encouraging computerization in governance and e-commerce
8. E-infrastructure (education, health, e-commerce, m-commerce)
9. Establish National Information Technology Center.
10. Increase computer literacy from amongst schools.
11. Establishing national level fund to contribute R&D in IT.

Uses of IT in Nepal

1. Information Management : MIS
2. Planning and controlling : various organizations from private and government organizations are using IT for their planning, forecasting, controlling purpose.
3. E-commerce
4. E-education
5. E-banking
 1. ATM
 2. M-banking
 3. Online banking

Natural Environment and Energy in Nepal

Introduction

- Natural environment and energy are the two vital inputs for production.
- Thus, economic activities and environment are very closely inter-linked, because business firms depend on both natural resources as source of input and energy as a means to convert those natural resources into final output.
- Natural environment and energy combined with other factors of production for producing any product.

Natural Environment of Nepal

1. Nepal's physical setting

1. Area : 147181 square km.
2. It extends 885 km from east to west and 145 km to 241 km north to the south.
3. Land lock country located in between India and China to the south and north respectively.
4. Topographical description :
 1. Mountain (35% of land mass) : Himalayan ranges lying on the northern part of the county. The elevation of these mountain ranges varies from 4877 meter to 8848 meter. 2% cultivable, 7% of the total population (Pant)
 2. Hills (42% of land mass) : comprises of Chure and Mahabharat ranges located in the middle of the country. The elevation 610 meters to 4877 meters 46% of total population. 10% land cultivable.
 3. Terai (23% of land mass) : 40% cultivable, 47% of total population

2. Resource Endowment :

1. Rich in water resource
2. Potential hydropower 83,000 MW, out of which 25000 MW is economically feasible. But due to lack of the willpower of the political parties forming government Nepal has not been able to utilize its water resources.
3. Forest : 37% of land mass is covered , but rapidly, this resource is depleting.
4. Mineral potential is yet to be assessed. However, some previous surveys show that Nepal has some economically feasible magnesite, limestone, iron ore, lead, zinc, coal and stone deposits.
5. Agricultural land is the main natural resource of the country, however due to lack of irrigation facility, timely availability of required agricultural inputs, such as fertilizer, quality seeds, recent trend of youths leaving the country for foreign employment, internal migration from hill and moutain to terai region, rural to urban areas, the cultivable land is not being fully utilized.

3. Environment Pollution issues in Nepal

Energy situation in Nepal

- Energy crisis is the biggest obstacle to development. Despite enormous opportunities available in hydropower sector, the investment is less than expected. Lack of transmission line has adversely affected the construction work of some of the hydropower projects. The management has not been effective as Nepal Electricity Authority holds sole authority for production, transmission and distribution.

Energy situation in Nepal

- Nepal's economic and social development is being hampered by its inadequate energy supply. The country does not have its own reserves of gas, coal or oil. Although its most significant energy resource is water, less than one percent of the potential 83,000 megawatts of hydropower is currently harnessed.
- Firewood is the predominant energy carrier, counting for more than 70 per cent of consumption. However, its use is inefficient and poses a threat to the country's forests. At the same time, the indoor pollution caused by open hearths in homes presents a hazard to health. Mains electricity is generally only available in urban areas and some 60 percent of the population do not have access to it.
- The hydropower resources must be exploited in an environmentally sound manner. The energy generated should benefit small and micro businesses while improving the standard of living and the health of local people. It should contribute to the protection of forested areas and, by being fed into the national grid, should bring new revenue to the region.

- Compared with other countries, Nepal has a high energy consumption in relation to its gross domestic product (GDP).
- It does not yet have a strategy for sustainable, efficient energy use for either the electricity sector or its main primary energy source, biomass.
- The power supply is particularly critical during the dry season, during which it is cut off for several hours a day, which has a negative impact on business and private households. Private households, the public sector as well as commerce and industry sector are largely unaware of the economic and ecological advantages of efficient energy use.
- There are no standards for energy-saving domestic appliances, lighting or products and processes in industrial use.
- The energy sector is viewed as Nepal's key sector with regard to future inclusive economic growth and the realisation development goals as formulated in government policy documents like the current Three Year Development Plan.

- Besides quantitative targets for electricity generation, transmission and distribution the Government reiterates its commitment to sector reforms and the promotion of private sector participation.
- Further priority is given to extend rural electrification and a commitment towards a more efficient use of energy. Despite continuous endeavors by the Government and support by the Development Partners the energy supply in Nepal is still insufficient, and a significant obstacle for the social and economic development of the country.

- Biomass is by far the most utilized primary energy source and the electrification rate of the population is only about 55%, with approx. 43% in rural areas.
- Nepal's average annual per capita electricity consumption is about 130 kWh – one of the lowest consumption in South Asia. Despite its vast hydropower potential, Nepal suffers from a severe and long-lasting electricity supply crisis. The framework conditions and incentives for private investments in power plants are not adequate and a non-cost-covering tariff system discourages efficient electricity use.
- Deferred investment in electricity infrastructure has caused scheduled power cuts of up to 16 hours per day during dry season. As this situation is expected to worsen in future, commercial and industrial entities increasingly operate costly diesel generators. The import of petroleum products has exceeded total exports and thereby contributes significantly to Nepal's trade balance deficit.

- At the same time the energy use is inefficient; the energy consumption per GDP is twice as high in Nepal as in other South Asian countries.
- In the last decade dissemination of renewable energy in rural areas has been effectively promoted with assistance of the Development Partners.
- Decentralized electricity generation and biogas installations thereby improve rural living condition and contribute to a more sustainable use of biomass.
- Rising energy costs and prevailing energy scarcity increase attention to the efficient use of energy. Reasonable potentials for energy efficiency measures have been identified in industry and households as well as public infrastructure.

Energy situation

- No. of operating hydro projects -43.
 - Total Estimated capacity 718.099 MW
- No. of thermal plants 2
 - Capacity 53.410 MW

List of surveyed Hydro power Licences above 100 MW in Nepal

Survey License issued

Sl. No.	Capacity	No. of Projects	Estimated Total production capacity
1	1-25 MW	59	382.956 MW
2	Below 1 MW	121	N/A
3	25-100 MW	8	N/A
4	Above 100 MW	14	4261.700 MW

S No	Project	Capacity (MW)	River	License No	Issue Date	Validity	Promoter
1	Upper Trishuli-1	216.000	Trishuli	265	2063-09-24	2068-09-23	Nepal Water & Energy Development Co. P. Ltd
2	Upper Karnali	900.000	Karnali	328	2065-02-05	2069-08-04	GMR, Upper Karnali Hydropower Limited
3	Arun 3	900.000	Arun	375	2065-04-03	2068-10-02	Satluj Jal Vidyut Nigam Limited
4	Dudhkoshi-2 (Jaleswar) HPP	240.000	Dudh Koshi	548	2067-01-16	2072-01-15	Dudhkoshi Hydropower Pvt Ltd
5	Thuli Bheri	121.000	Thuli Bheri	564	2067-02-31	2070-02-30	GAGE Nepal Pvt Ltd
6	Ghandruk Modi	111.000	Modi	605	2068-03-01	2071-02-30	Panchjanya Hydropower P Ltd

7	Thuli Bheri-1 HPP	110.000	Thuli Bheri	625	2069-03-05	2072-03-04	Trishakti Urja Pvt Ltd
8	Bheri-3 storage Hydropower Project (BR-3)	480.000	Bheri	0635	2069-05-07	2071-05-06	Sunrise Hydropower P. Ltd
9	Upper Budhi Gandaki Hydropower Project	254.000	Budhi Gandaki	642	2069-08-03	2072-08-02	Nauseni Hydro Pvt Ltd,
10	Dudhkoshi Storage	300.000	Dudh koshi	653	2069-11-22	2071-11-21	Nepal Electricity Authority
11	Tamor Storage	200.000	Tamor	666	2070-04-16	2072-04-15	Nepal Electricity Authority
12	Tamor Mewa	101.000	Tamor	675	2070-11-22	2071-11-21	Spark Hydroelectric Co. Ltd.

12	Tamor Mewa	101.000	Tamor	675	2070-11-22	2071-11-21	Spark Hydroelectric Co. Ltd.
13	Chera 1	148.700	Chera	682	2071-03-17	2073-03-16	Byucksan Engineering co. Ltd, Seoul, Korea
14	Andhi Khola Storage Hydropower Project	180.000	Andhi Khola	685	2071-06-02	2073-06-01	Nepal Electricity Authority

Total capacity for 14 projects = 4261.700 MW



Concept of Business Environment

Concept:

- Various factors that affect to the firm's business activities/programs.
- Those factors can be divided into two groups:
 1. **Internal Factors:** Those factors which are existed into the business organization and affect to the firm's business activities. Controllable factors. Analysis for find out the strengths and weaknesses of the organizations. Examples are:
 - i. Objectives of the firms
 - ii . Resources of the firms
 - iii. Organizational structures
 - iv. Human resource
 - v. Production and operation of organization
 - vi. Finance of the organization
 - vii. Organizational capabilities
 - viii. Information system
 - ix. Intellectual resources
 - x. Infra-structure

Concept.....

Analysis of internal environment is essential to find out the various strengths and weaknesses of the organization.

Strengths:

Strengths are the features of your business which allow you to work more effectively than competitors.

You must be honest and realistic. When you try to find company's strengths, try to answer the below questions:

What is it that you do well?

What benefits do you have over your competitors?

What makes you stand out from the competitors?

Concept.....

Weaknesses:

Weaknesses are the areas which have scope for improvement. Try to find if you have a lower productivity or higher cost base than your competitors.

You will have to face the unpleasant truths about your firm and be realistic. Ask the following questions:

- What are you bad at?
- Is there anything you could be better at?
- What should you avoid?
- What leads to problems or complaints?

The greatest thing about internal factors is that you have control over most of them.

Figure of Internal Environment

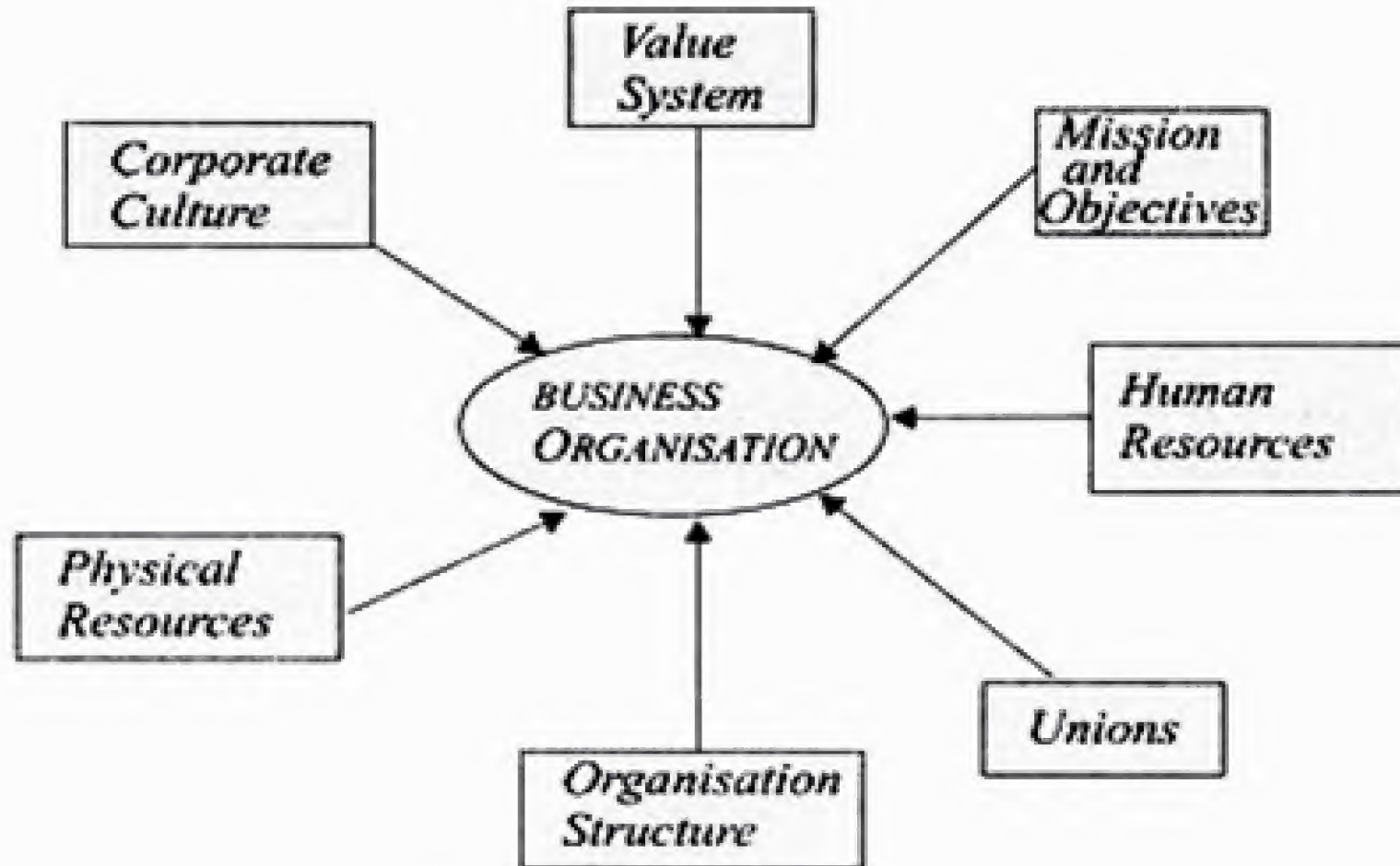


Fig. 1.4. *Internal Environment*

Concept.....

2. External Environment: Those factors which are outside from the business organizations and largely affect to the firm's business activities. Those factors are totally uncontrollable. Analysis of those factors find out the various opportunities and threats occurring in the markets to the business firms. Those factors are:

1. Task/Operating Environment: External environment which affects its [ability](#) to [reach business goals](#). Any business or [consumer](#) with direct involvement with an organization may be part of the task environment. Factors are:

- i. Customers
- ii. Employees
- iii. Competitors
- iv. Government
- v. Intermediaries
- vi. Labor union
- vii. Pressure groups
- viii. Communication media

Concept.....

2. Remote/General environment: Economic, political, social-cultural and technological factors or forces that affect a form's decision making abilities and freedom, but are beyond its control or influence are general environmental factors. Those factors are:

- i. Political-legal
- ii. Economic
- iii. Socio-cultural
- iv. Technological
- iv. Natural
- v. Global

It is also called PEST/PESTEL analysis.

Concept.....

Opportunities and threats: Factors, or forces in an organization's external environment that are out of its control, and can directly or indirectly affect is chances of success or failure.

Opportunities: Should be grab in time.

Threats: Escape or convert into opportunities.

(Same factor may be opportunity to one organization and may be threat to another organization)

So, the environmental analysis is related with SWOT analysis.

Figure of External Environment

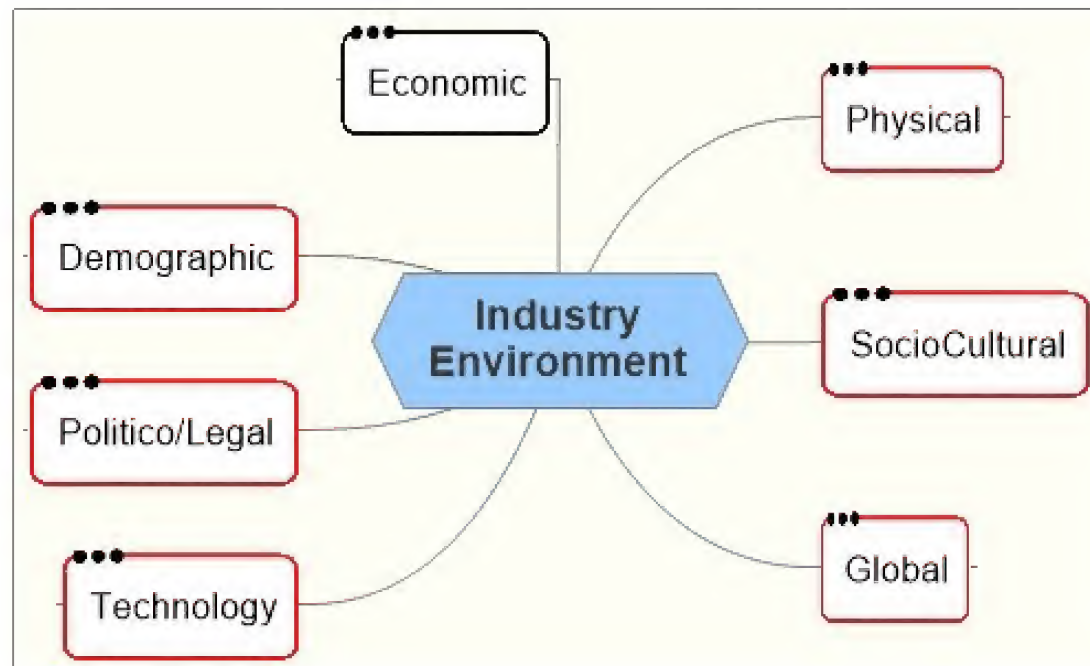
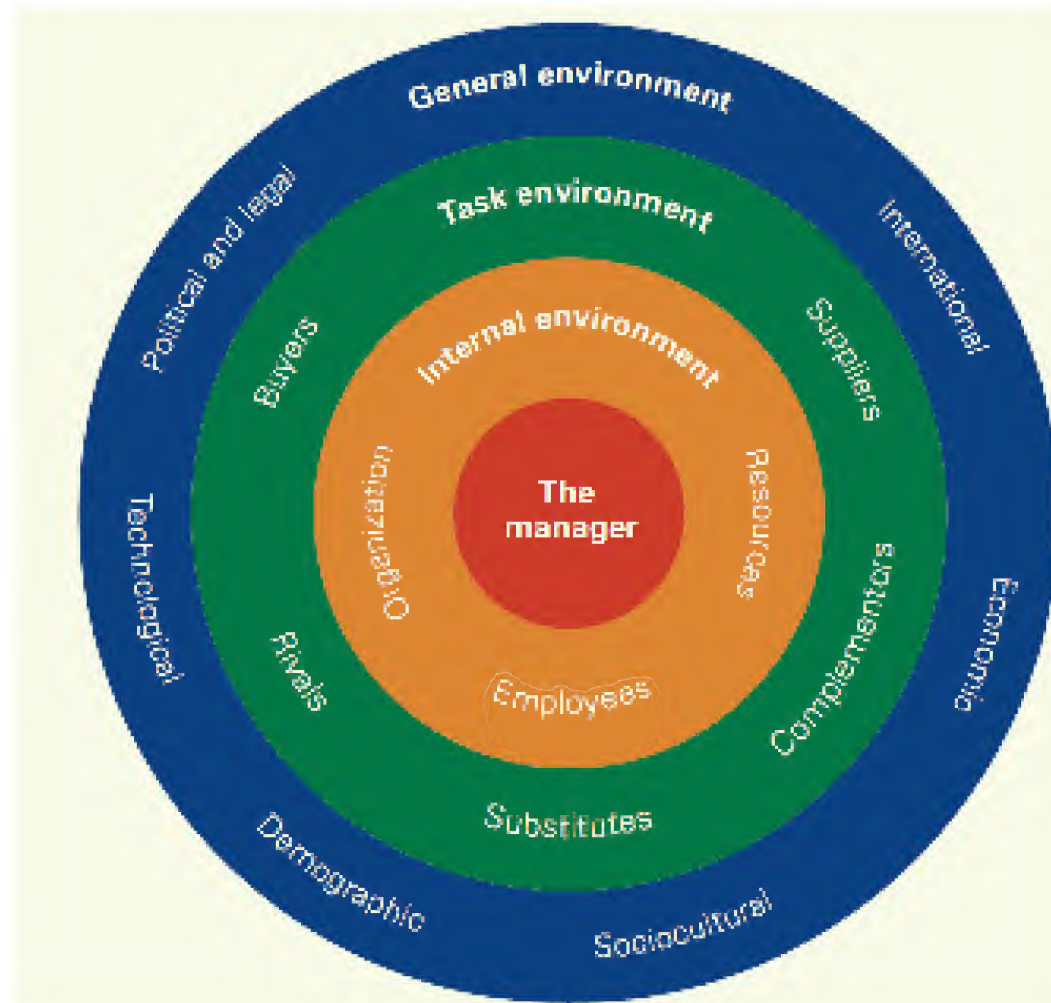


Figure of Overall Environment



Business Environmental Analysis



Characteristics of business environment

Following are the characteristics:

1. Complex
2. Dynamic
3. Interrelated
4. Multi-faceted
5. Uncertainty
6. Long-term Impact
7. Related with SWOT Analysis

Environmental Analysis Process

Environment analysis is managerial decision making based on the assessment of opportunities and threats in the environment.

The step in environmental analysis are :

(1) Scanning :It involves information gathering for assessing the nature of the environment in terms of uncertainty, complexity and dynamism. It:

- Identifies early signs of future environmental changes. They are indicated by trends and events.
- Detects changes already ongoing. They are happening.

(2) Monitoring :It involves tracking environmental trends and events. It is auditing of environment. The possible impact of environmental influences on business performance are identified.

Contd.....

(3) Forecasting :This step forecast what is possible to happen. It lays out of path for anticipated changes. This step provides:

- Key force at work in the environment. They can be; political-legal, economic, social- cultural and technological.
- Understanding of the nature of key influences and drivers of change.
- Projection of future alternative paths available.

(4) Assessment :This step identifies key opportunities and threats. The competitive position of business analyzed in terms of how the organization stands in relation to other organizations competing for some resources of customers.

- Opportunities is a favorable condition.
- Threat is an unfavorable condition.

(Environmental analysis identifies competitive position of a business organization.)

Contd.....

External environmental analysis process

Scanning	■ Identify early signals of environmental changes and trends
Monitoring	■ Detect meaning through ongoing observations of environmental changes and trends
Forecasting	■ Project anticipated outcomes based on monitored changes and trends
Assessing	■ Determine the timing and importance of environmental changes and trends for firms' strategies and their management

Environmental Analysis Techniques

Techniques are:

1. **Environmental scanning:** It is the technique of acquiring information and analyzing the trends emerging in the environment. It involves monitoring changes and developments in the environment that have potential impact on the business of an organization. It is a continuous process for the survival of an organization.

Various methods of environmental scanning are:

1. **Extrapolation:** Information from the past is used to explore the future by forecasting, trends analysis, regression analysis.
2. **Historical Analogy(similarity):** Trend is studied by establishing historical parallel with other trends. Information is available from the other trend.

Contd.....

3. **Scenario building:** Constructing a time-order sequence of events that have logical cause and effect relationships. Forecasting based on inter-relationship of events.
4. **Model building:** Mathematical and econometric models of the environment are simulated.
5. **Delphi technique:** Systematic pooling of expert opinions in varying stages. Feed back is used to develop the new forecasts.
6. **Cross-impact Matrix:** Forecasts derived by means of various methods may be combined into a well-integrated and internally consistent description of the future.

Contd.....

- 2. SWOT Analysis:** SWOT Analysis is a useful technique for understanding your Strengths and Weaknesses, and for identifying both the Opportunities open to you and the Threats you face.
- 3. Monitoring:** Monitoring examines the course, range, momentum, and strength of change underway. The purpose of monitoring is to identify how environmental changes will impact the firm.
- 4. Market and Business Intelligence System:** A system that is systematically gathers and processes critical business information, transforming it into actionable management intelligence for marketing decisions.
- 5. Benchmarking:** It is the process of continually comparing an organization's performance against the performance of the best organization in similar business to determine what should be improved.
- 6. Scenario Development:** It is an attempt to provide a realistic description of possible future development within the environment. Its basic purpose is to consider the likely impact of future development on the firm and its activities.

Models of Environmental Analysis

Models are:

1. PEST Analysis
2. PESTLE Analysis
3. Porter's Five-forces Model

Contd.....

PEST/PESTEL Analysis: It is the framework for the analysis of external environment consists of:

1.P= Political Factors: Government stability, political system, institutions, philosophy.

2. E= Economic Factors: National income, interest rate , inflation, taxation, unemployment, business cycle, economic system, policies, globalization.

3. S=Socio-cultural Factors: Demographics, incomes, education, lifestyle, social change, religions.

4. T= Technological Factors: Level of technology, technological change, technology transfer, R and D.

5. E=Environmental Factors: Environmental laws, energy consumption, pollution air, soil, water and relationship between ecology and business.

6. L= Legal Factors: Laws about monopoly, intellectual property rights, labor, finance, product safety, law of administration.

Porter's Five –forces Model

- **Porter five forces analysis** is a framework to analyze the level of competition within an industry and [business strategy](#) development. It draws upon [industrial organization \(IO\) economics](#) to derive five forces that determine the competitive intensity and therefore attractiveness of an Industry. This analysis is associated with its principal innovator [Michael E. Porter](#) of [Harvard University](#). According to Porter, five forces are:
 - Potential Entrances
 - Suppliers
 - Buyers
 - Substitutes
 - Competitive Rivalry

Contd.....

Threat of New Entry

- Time and cost of entry
- Specialist knowledge
- Economies of scale
- Cost advantages
- Technology protection
- Barriers to entry

Threat of New Entry

Competitive Rivalry

- Number of competitors
- Quality differences
- Other differences
- Switching costs
- Customer loyalty

Supplier Power

Supplier Power

- Number of suppliers
- Size of suppliers
- Uniqueness of service
- Your ability to substitute
- Cost of changing

Competitive Rivalry

Buyer Power

Buyer Power

- Number of customers
- Size of each order
- Differences between competitors
- Price sensitivity
- Ability to substitute
- Cost of changing

Threat of Substitution

Threat of Substitution

- Substitute performance
- Cost of change

Environmental Analysis for Strategic Management

- What is strategy?

- It is long-term plan or policy or art of war..
- It is unified, comprehensive and integrated plan
- It is designed to accomplish the organizational goals through proper execution by the organizations.
- It helps to enhance efficiency, effectiveness and analyze to the comparative advantages.
- It is taken as the means to an end but not the end itself.
- It occurs in dynamic environment.

Strategic management is the continuous planning, monitoring, analysis and assessment of all that is necessary for an organization to meet its goals and objectives. It is formulated by the top level management.

Strategic Management



Use of Environment Analysis in Strategic Management

Usefulness are:

- Goal formulation
- Identification of opportunities of advantage and threats to be tackled through SWOT analysis
- Identification of strength of competitive advantage in terms of resources and core competencies, weakness to be avoided
- Formulation of strategies by matching opportunities of advantage with resources strength
- Development of strategic options to make strategic choice for strategy formulation
- Assessment of effectiveness of strategies to achieve mission and goals of the organization
- Corrections needed in strategies to adopt them to environmental changes, reformulation of strategies.

Discussion Questions

1. Define business environment. What are the features of business environment?
2. Explain the components of business environment. Why the Nepalese manager need to study business environment?
3. Define environmental scanning. What are the types of environmental scanning?
4. What is environmental scanning? Explain environmental analysis process.
5. Explain about the various environmental analysis techniques.
6. Discuss about the Michel Porter's five-forces model for analyze the competitive advantage of business firm giving with the suitable examples.
7. Discuss the importance of strategic management for modern corporate executive.

Best of Luck !



Economic Environment



Macro-economic Environment

The **economic environment** consists of external factors in a business' market and the broader economy that can influence a business. The macroeconomic environment, which affects an entire economy and all of its participants. Many economic factors act as external constraints.

on our business, which means that we have little, if any, control over them.

Macroeconomic influences are broad economic factors that either directly or indirectly affect the entire economy and all of its participants, including business. These factors include such things as:

Interest rates

Taxes

Inflation

Currency exchange rates

Consumer income

Savings rates

Consumer confidence levels

Unemployment rate

Recession

Depression

Economic System

The economic system around the globe can be broadly classified into three groups. Those are as::

- 1. Capitalist/market Economy
- 2. Socialist/command Economy
- 3. mixed Economy

(The classification is based on the method of resource allocation in the system. There is market allocation in the capitalist economy, command or central plan in a socialist economy, and mixed allocation in a mixed economy)

The Economic system

TYPES OF ECONOMIC SYSTEMS:

- **Tradition Economy**

- is based on culture and tradition.

- **Command Economy**

- is an economy where government plays the important role

- **Market Economy**

- is an economy where private individuals take their own decisions with less government intervention.

- **Mixed Economy**

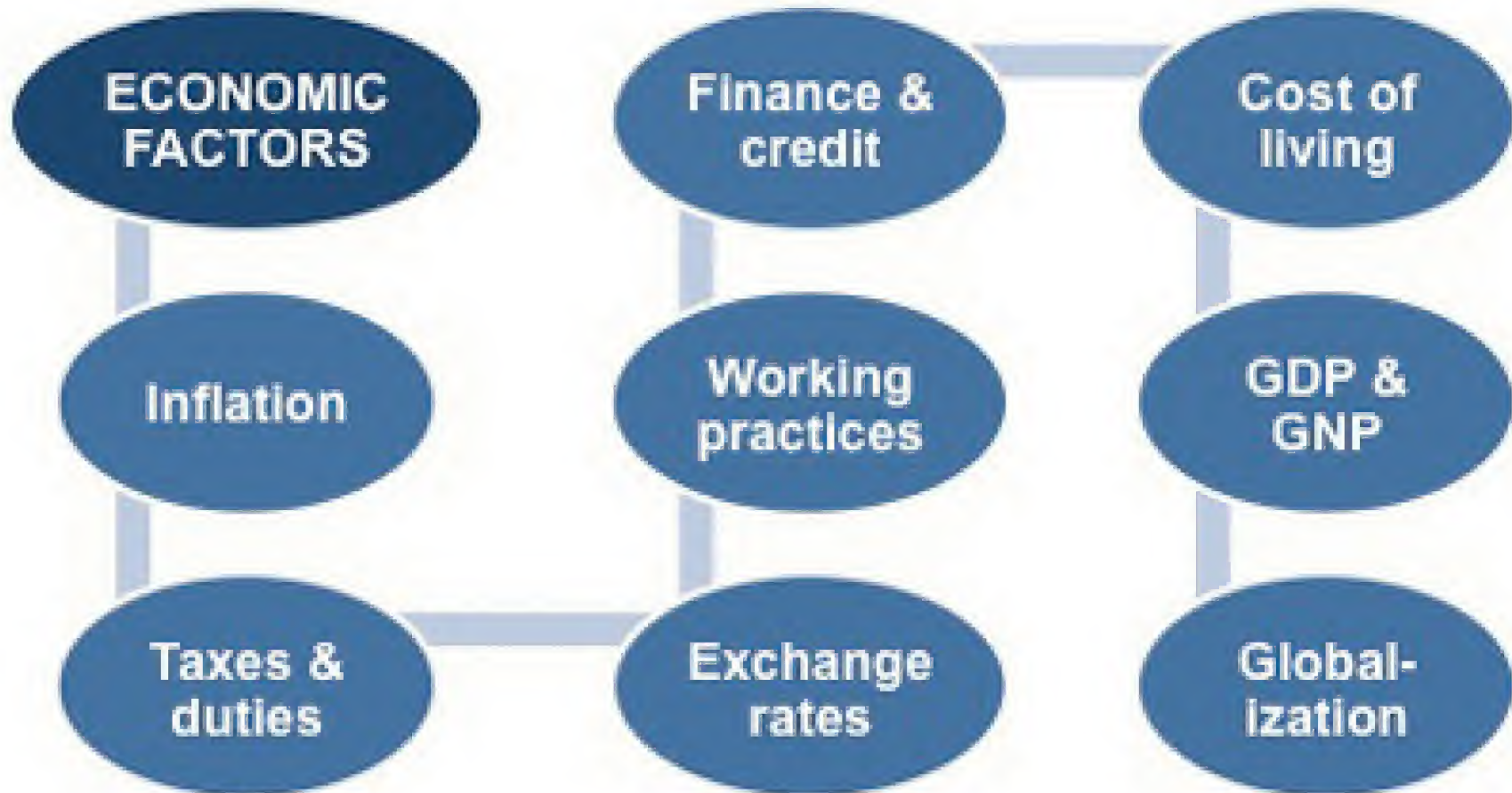
- is a combination of both the economies-both the government as well as the private individuals take decisions.

Economic Dimension of an Economy

Economic dimension: Major components are:

- Gross national product
- Per-capita income
- personal consumption and expenditure
- Personal ownership of goods
- Inflation rates
- Private investment
- Unit labor cost
- Level of employment

Economic Dimension: Major Influencing Factors



Major Challenges of the Economy in Nepal

Major challenges are:

1. The catastrophic earthquake -2015 :

The death toll around: 8790

Injuries: 22,300

Missing people: 300

Large livestock(death): 17000

Small : 40000

Completely Destroyed Home: 507017

Partially Damaged Homes: 269190

Total affected people: 8 million

2. Earthquake and its effect in economy:

Growth rate estimated 1.5% in 2016 (prior 4.6%)

It is expected 7% in 2017.

Damaged loss equivalent to Rs. 706.5 billion.

(impossible to attain the target of growth rate 7-8 percent to reach the status of a developing country by 2022)

Earthquake 2015: How It's Damaged our Economy?



Major Challenges of the Economy in Nepal

3. Challenge to achieve higher economic growth rate: it has below 1% (2016) economic growth rate where as neighbor country has double digit growth rate

4. Inflation rate: It is continuously increased. Annual point-to-point aggregate CPI rose by 10.7 as compared to 9.9%.

5. Outstanding foreign and domestic debt: It is grew by 8.5%.

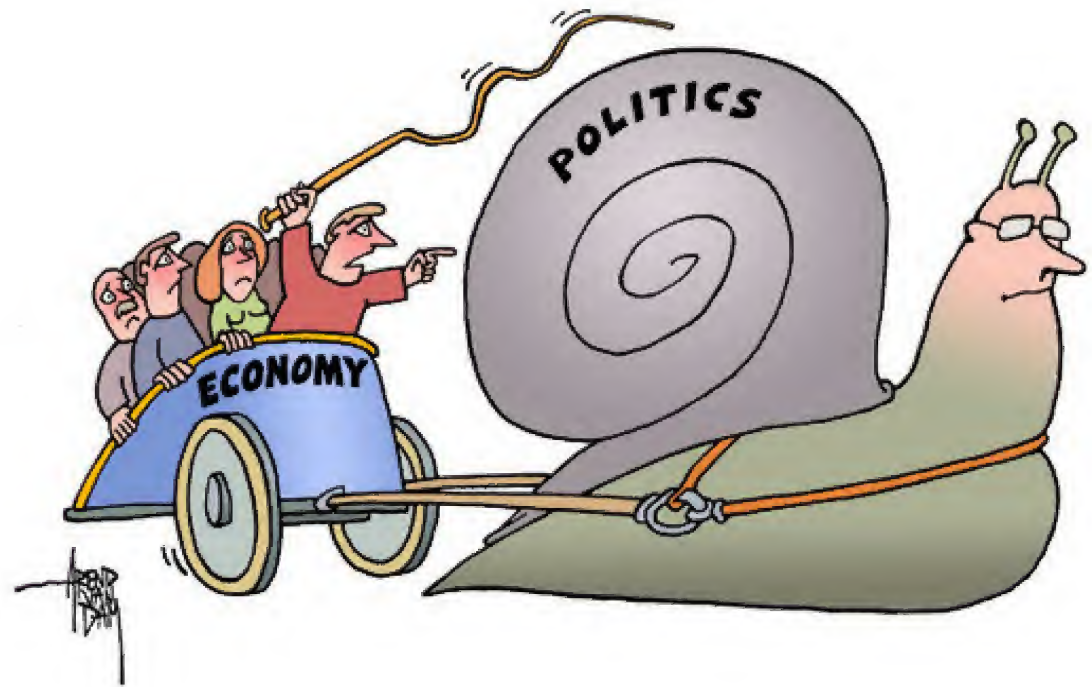
Difficult to Trust

यस्तो थिया ५० वर्ष अधिको बजारभाउ					
मसिनो धान	१ मुरीको	रु. ९१-	घिउ	१ धानीको	रु. ७-
मकै	१ मुरीको	रु. १०१-	तेल	१ पाथीको	रु. ७-
गहुँ	१ मुरीको	रु. १०१-	नून	१ पाथीको	१५० पैसा
कोदो	१ मुरीको	रु. ५१-	गरम मसला	१ धानीको	रु. २६१-
केराउ	१ मुरीको	रु. १५१-	जिरा	१ धानीको	रु. २०१-
मासको दाल	१ मुरीको	रु. १४१-	आलु	१ धानीको	१४० पैसा
नुसुरो दाल	१ मुरीको	रु. १२१-	प्याज	१ धानीको	१६० पैसा
चिनरा	१ पाथीको	रु. ११-	लसुन	१ धानीको	रु. ११-
मसिनो चामल	१ पाथीको	रु. ११-	कुखुराको फूल	१ गोटाको	१२ पैसा
रंगो (ठूलो)	१ गोटाको	रु. ४०१-	हाँसको फूल	१ गोटाको	१३ पैसा
खसी (ठूलो)	१ गोटाको	रु. १०१-	भाले कुखुरा	१ गोटाको	रु. ११-
भेडा (ठूलो)	१ गोटाको	रु. ७-	दूध	१ पाथीको	रु. ११-
ब्याङ्गा (ठूलो)	१ गोटाको	रु. ७-	खान्नाको जुत्ता	१ जोर	रु. ३१-
धिया	१ कपको	१५ पैसा	सुन	१ तोलाको	रु. ८०१-
सिगरेट	१ बड्को	१० पैसा	चाँदी	१ तोलाको	रु. ४१-

Major Challenges of the Economy in Nepal

6. **Condition of BOP:** Balance of payment is deficit.
7. **Overall condition of securities market** has not been satisfactory.
8. **Problem of unemployment:** Millions of youth are compelled to heading for overseas seeking employment due to failure in creating employment opportunities within the country.
9. **Migration of population:** It has increased the population in cities and secured locations with physical facilities has created the problem of urban poverty.
10. **Consumption oriented economy:** Due to the Remittance income and other factors.
11. **Value Added Tax** has not yet been implemented effectively.
12. **Level of capital expenditure** in the country is not to the extent as desired development projects.
13. **Sectors like** tourism, infrastructure, real estate, agriculture and finance have been seriously affected from the recent devastating earthquake.

Nepalese Economy: Images



Nepalese Economy: Image



Nepalese Economy: Image

NEPAL

Economic Growth at 4.5%
Inflation between 7-8%



ktm2day.com

Employment Trends

- Economic transformation is taking place in Nepal as the economy slowly moves away from the agriculture sector to other sectors.
- The economic transformation has various implications for the national economy.

The emerging labor market trend are as follows:

- The people are giving up their traditional family occupation like cottage and small industries and individual farming are now attracted towards new occupations.
- Due to the decreasing employment opportunities in the rural areas, the population has now been migrating to urban areas (and abroad some people) for employment.
- Migration to the foreign country has also increased significantly over the past decades that has affected the population and labor market.
- The impact of economic transformation taking place in the country can be observed by the development of new settlements along the highways. In many places, new townships have developed generating new employment opportunity.
- The educational level and literacy rate is rising and women are now seeking out employment opportunity.
- People from more diverse workforce its advantages.

Changes: Just Beginning



Labor Market Issues

The labor market mechanism are crucial for the stability and productivity of the work force. The labor market regulation play a major role in these areas. The labor market frameworks are rigid in Nepal and the quality of education is relatively lower. The permanent employee can not be dismissed from the job which includes in the labor Act 1992. Act also explain about the minimum wage and classification of labor. Mandatory payment of 10% of profit to a workers' benefit fund.

The rigid regulatory framework has been affecting labor market and productivity in the following negative ways:

- There is discouragement for labor to be efficient and productive.
- Business firms are inclined toward the use of capital-intensive system
- There is discouragement for firms to invest in training and education of their work force.

Labor Market Issues

- Business firms are inclined to employ Indian labor in highly skilled positions rather than Nepali workers.
- Performance related pay and incentive system cannot be implemented due to trade union resistance.

(Without labor market improvements , Nepal will find it difficult to increase competitiveness and formal sector employment significantly)

Migration and Foreign Employment

- Migration is the most important component of population change.
- People migrate for several purposes that may be for security, education, employment and better facilities.
- There is a high tendency of migration in Nepal. Himalaya and hilly region to Terai and Big cities like: Katm, Pokhara, Biratnagar for better opportunities and facilities.
- In Nepal, the number of people going abroad for foreign employment has been increasing annually.
- The below table presents the picture of foreign employment. Countrywide data show that Malaysia is the major destination for foreign employment followed by Qatar, Saudi Arabia, and United Arab Emirates:

Status of Foreign Employment by Country

S.N.	Country	2013/14	2014/15
1	Qatar	128874	84911
2	Malaysia	214149	152864
3	Saudi Arabia	86876	67419
4	UAE	54965	37364
5	Kuwait	19353	6639
6	Bahrain	4185	3114
7	Oman	3435	1488
8	S. Korea	2125	2801
9	Lebanon	1117	527
10	Israel	674	342
11	Afghanistan	605	972
12	Japan	2098	1551
13	Other Countries	9358	4748

Destination of Work: Gulf



Contd.....

- Due to lack of education and skills, the bulk of the economically active population is engaged in manual and unskilled type of work.
- It is estimated that about 43% of the labor force is unemployed. The manpower situation in Nepal shows an uneven distribution of educated manpower. Most trained persons are in urban.
- The labor force participation rate is 83.4%. However, the share of the economically active population in the primary sector (agriculture, forestry, hunting and fishing) has gradually declined over the decades.

How we can develop our nation?



Nepali youths rushing queue
for EPS Korean Language test

Economic Development Plan

Three-Year Plan, 2010-13(post-conflict plan):

- The three year plan (2010-13) was released by the Government of Nepal in may 2010. The main objective of the three year plan was to lay the foundation of economic and social transformation for developing a prosperous, peaceful and judicious Nepal.
- The plan aimed at promoting employment and economic growth, reducing poverty and inequality, and establish a sustainable peace.
- It strategies included creating development infrastructures, making governance and service delivery effective and mainstreaming trade in light of the nation's future federal structure and promote regional balance.
- Plan aimed for an overall annual economic growth rate of 5.5 percent, with growth rates of 3.9 and 6.4 percent in the agricultural and non-agricultural sectors respectively.
- But, average annual economic growth during the plan period was just 4.0 percent with 3.6 and 4.2 percent growth in the agricultural and non-agricultural sectors.

Economic Development Plan

Last Three Year Plan(2013/14-2015/16):

The long term vision of the current plan is to upgrade Nepal from a least developed country to a developing country by 2022. Target annual economic growth rate 6 percent.

The objectives and strategies of the current plan are as follows:

- Achieve inclusive, broad-based and sustainable economic growth by enhancing the contributions of the private, government and cooperative sectors to the development process.
- Develop physical infrastructure.
- Enhance access to social services and improve the use and quality of those services.
- Enhance good governance in the public and other sectors.
- Empower targeted groups and sectors both socially and economically.
- Implement development programs which support climate change adaption.

Strategy for Poverty Reduction in Nepal

- Promoting poor , underprivileged and women
- Sustainable economic growth
- Equitable social development
- Mobilizing local resources
- Building awareness
- Promoting urban good governance

Industry and Agriculture Sectors Performance and Challenge:

Industrial Sector:

Industrialization in Nepal began only after the country opened to the outside world in 1951.

The first basic industry were in agro-processing (Oil seed extraction, jute processing, tea production and timber milling) followed in the sixties by basic construction material production and some import substitutes such as beverage, cigarettes, textiles, agricultural tools, furniture etc.

Contd.....

- In the seventies and eighties, export-oriented carpet and garment industries and a emerging mining industry, based primarily on magnesiite extraction had emerged.
- In the nineties, the industrial growth had been particularly impressive in segments like, electronics, electrical equipment, construction, food processing, cement, sugar and power generation. The industrial sector now contributes about 16 percent of Nepal's GDP.
- The service sector is now assuming a more prominent place in the structure of the Nepalese economy. The achievements in the service sector activities like hotel, travel, tourism, banking, financial services, insurance, entertainment, education, healthcare, and consultancy have recorded expansion over the years.

Contd.....

- The share of the service sector to GDP has increased significantly. This is the sector where the opportunity of value addition is rather unlimited.
- The growing share of the service sector in GDP and concentration of these activities in urban areas imply that income is being redistributed in favor of the urban population. The contribution of service sector to the GDP is 53 %.

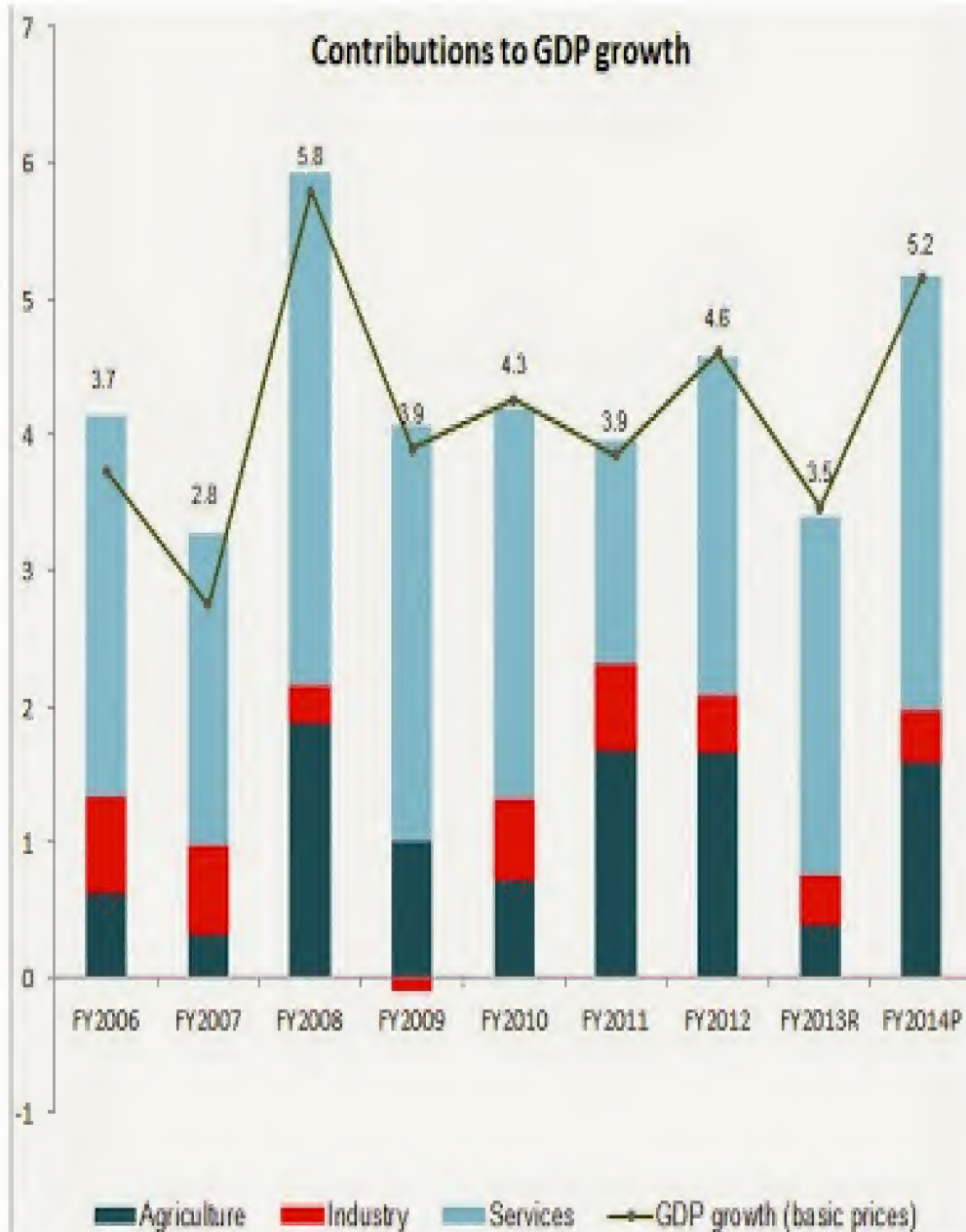
Small and Cottage: Low Competitive Advantage



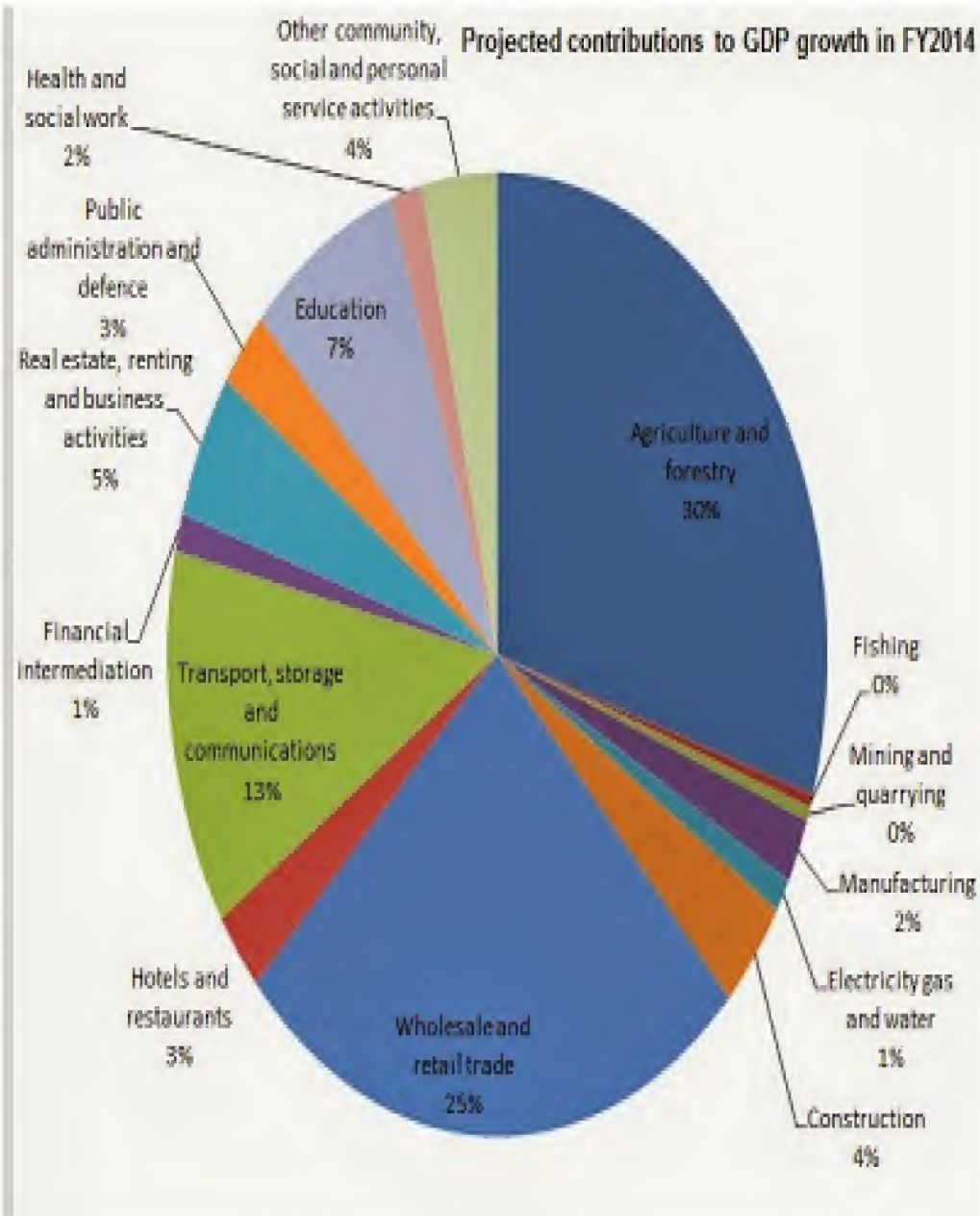
Role of Tourism and Travel-Related Services

- Sector of comparative advantage – instrumental in spreading benefits & providing alternative economic opportunities
- Located between the two fastest growing countries namely India and China
- Endowed with rich and diverse natural resources and cultural attractions - Incomparable cultural heritage as well as a rich environmental spectrum from the highest mountains to the Terai plains.

Contributions to GDP growth



Projected contributions to GDP growth in FY2014



Agricultural Sector:

- It is the largest sector and the backbone of the Nepalese economy. It is the major source of livelihood for a majority of the country's population.
- About 80% of Nepal's population is tied up with agriculture. For 90% of the poor, agriculture is the only income generating activity. This implies that the competitiveness of agriculture will have a decisive effect on poverty reduction. Contribution of this sector to the GDP is about 33%.
- Exports of agriculture products showed greater dynamism in the 1990s. The post 2000 period witnessed some growth in agricultural exports of items such as foods and feeds.

- India remains the important partner in agriculture trade, accounting for about 80 percent of Nepal's agricultural exports. However Nepal suffers from deficit in its agricultural trade. In contrast to formal agricultural trade, informal imports from India dominate the trade. Informal trading between Nepal and India is estimated to be much higher than that of formal trade.
- Nepal's agricultural sector has remained stagnant over the past few decades. In spite of huge investment in this sector in the past, the growth rate in agricultural productivity has been negligible.
- It grew at an average annual rate of only 0.5 percent over the period of 2000 to 2015.
- Major crops have low average yields.
- Nepal's agriculture sector is in part moving from a "consumption-oriented system" to a "market-oriented system".
- The above analysis indicates that Nepal's agriculture sector has lost its competitive edge owing to shortage of fertilizers, seeds, irrigation and other facilities necessary for raising agricultural productivity in a situation whereby its neighboring countries have been providing subsidy and other facilities to this sector.



Agriculture: Nepal Vs China



Economic Policies and Reforms

Industrial policy:

- The new industrial policy was announced in 2010 which replaced the old policy of 1992.
- The present policy is comprehensive in coverage and is in line with the principles of free-market economy. The policy has opened new frontiers for joint venture activities in the country.
- The participation of the private sector has been encouraged, particularly for the industrial development of the country.
- It has specially conceptualized provisions for women entrepreneurs, micro, small and cottage industries, special economic zones, 24 hour electricity for industrial areas, low custom duties for industries buying generators, bonded warehouse for export-oriented industries, foreign direct investment, income tax waiver for industries employing more than 25 women and an investment board.

Objectives of industrial policy:

- To contribute to the national economy through increased foreign exports of quality and competitive industrial production.
- To put emphasis on the development of the industries utilizing local raw materials, skills and resources thereby contributing to regional and national development.
- To develop sustainable and dependable industrial sector through the application of latest technology and environment friendly industrial processes.
- To promote Nepal as an attractive place for investment by developing productivity-conscious human resource and building managerial capability
- To protect industrial intellectual property rights.

(The Industrial Policy, 2010 has brought a long awaited international rule of “No work no pay” for the overall development of the industrial sector.)

Modern Garment Industry in Nepal



Privatization policy

- In 1980s, a new wave of thoughts and range of alternatives for public sector improvement were witnessed throughout the world. An era of privatization emerged as an alternative strategy for public sector reforms. Many developing countries in Asia also initiated privatization moves.
- They privatized many of their public enterprises.
- Privatization is now being considered as an approach to stabilizing and developing the national economy by strengthening the participation of the private sector in nation building.

Methods of privatization:

A variety of methods exist that can be used for privatization. The widely used methods are as follows:

- Sale of share: IPO sale to employees or public.
- Direct asset sales: Sale to the assets/entity in the competitive market.
- Management contract: Transferring the management for a certain period.
- Leasing out: Alternative to management contract. Lease out any enterprise or assets.
- Other options : Use other options except above mentioned.

Privatization policy and practices in Nepal

The act imagines the following procedures to be followed in the process of privatization of public undertakings:

- A privatization committee is to be formed under the chairmanship of the Minister of Finance.
- The committee is to conduct studies, evaluate the enterprises, remove difficulties faced in privatization, formulate privatization programmes, and recommend the scheme to the Government for execution.

- The committee can appoint a team of national experts or, if necessary, a joint team of national and foreign experts for evaluation of the enterprise.
- The Government may privatize any enterprise, which has been classified for privatization in pursuance of any or all of the following processes:
- By the sale of shares of the enterprise to the general public, employees, workers, and any person or a company, interested in the management of such enterprise.
- By formation of cooperatives
- By selling assets of the enterprise
- By leasing out the assets of the enterprise
- By involving private sector in the management of the enterprise
- By adopting any other modalities considered appropriate by the government on the basis of the recommendation of the committee.

(Under this policy 30 public enterprise has been privatized.)

Some Privatized and Dissolved Public Enterprises

S. No.	PEs Name	Year	Mode
1.	Bhirkuti Paper Factory	1992	Assets and Business Sale
2.	Bansbari Leather and Shoes Factory	1992	Assets and Business Sale
3.	Balaju Textile Industry	1993	Share Sale
4.	Nepal Jute Dev. Co. Ltd.	1993	Liquidation
5.	Nepal Bank Limited	1997	Share Sale
6.	Himal Cement Ind. Ltd.	2002	Liquidation
7.	Biratnagar Jute Mills Co. Ltd.	2002	Management Contract
8.	Bhaktapur Brick Factory	2004	Assets Sale and Rent
9.	Nepal Telecom Company	2008	Share Sale



Businessmen: Thinking and doing?



Trade policy

- The government announced the new Trade Policy in 2009 replacing the existing Trade Policy , 1992. The new policy is comprehensive and updated, which has been framed and brought into implementation after Nepal became a member of the WTO.
- The main objectives of this new trade policy is to increase contribution of trade sector in national economy and thereby reduce poverty and accelerate economic growth.
- This policy includes a comprehensive list covering from institutional strengthening to legal and procedural reforms in order to create conducive environment for trade in the country.

The main features of trade policy are:

1. The government play the role of guardian, regulator, facilitator to make export trade competitive through commodity and regional diversification by bringing the private sector in the forefront.
2. The fiscal and monetary policies, foreign investment, industrial estate, tourism, agriculture, forest, and infrastructures policies will be reviewed with a view to harmonizing them with the trade policy.
3. Efforts will be made for concluding bilateral and regional agreements for the recognition of Nepalese quality standards with a view to enhancing the supply of goods in the quantity and quality in line with the demand of international markets.
4. The implementation of the Competition Act will be made effective, and timely amendments will be made in the Consumers Protection Act in order to protect rights and interests of consumers, and to develop a fair competitive regime in national and international markets. Moreover, laws relating to domestic trade will be framed and enforced.
5. Capacity of private, non-governmental and research oriented organizations will be enhanced for the export promotion of goods and services.

Our Ministry: Hope for Better



Our Participation should be Significant



SAARC Workshop on “Harmonizing Regulations and Policies for Cross Border Power Trade, Risk Sharing and Financial Settlement Issues”

26-27 Jun 14, Kathmandu, Nepal

Organized by

SAARC Energy Centre, Islamabad

in Collaboration with

Independent Power Producer Association of Nepal

Knowledge Partner

Independent Power Producer Association of India



Tourism Policy

Tourism industry is growing very rapidly and Nepal has tremendous potential for tourism development because of its unique natural and cultural heritage. In this context, the Government formulated a new Tourism Policy in 2009. This policy replaced the earlier policy of 1995. The objectives of this new policy are as follows:

- To create self-employment opportunity for the rural people and reduce the level of poverty through the extension and diversification of the tourism sector.
- To develop Nepal as an attractive tourism destination with the exploration, protection and promotion of the natural, cultural, biological, and man-made national heritages of the country.

- To expand and promote tourism sector by providing dependable, safe and accessible network of air and land transport facilities.
- To make the sustainable use of natural resources for tourism development keeping in view the adverse effects of tourism on environment.

The Highlights of Tourism Policy 2009 are as follows:

- Diversify Nepal's tourism products and services and take tourism to new areas.
- Encourage rural communities to launch various programs that contribute to the growth and promotion of rural tourism.
- Initiate promotional activities in the tourism generating locations in partnership with private sector.
- Formulate new strategy for the promotion of domestic, regional as well as international tourism.
- Activate the Nepal Tourism Board to implement these strategies.
- Conduct air services agreements with additional countries for the promotion of tourism.

- Encourage the private sector to participate in human resource development activities and also in the qualitative and quantitative development of tourism business.
- Apply the information technology to commercialize tourism business.
- Upgrade the quality of tourist services and facilities and make Nepal a secure place for tourists.



Panorama of
Paradise



Monetary policy

Monetary policy refers to all the actions of the central bank of a country which affect, directly or indirectly, supply of money, credit, rate of interest and the banking system. Basically, it affects the cost and availability of credit in the economy. In an open economy, monetary policy also seeks to regulate the foreign exchange market and exchange rate. The main objective of monetary policy and its instruments such as the interest rate or money supply is to control inflation or increase bank liquidity to guide healthy economic growth.

Monetary Policy 2015:

Key objectives:

- Support post earthquake reconstruction drive of the government.
- Development and expansion of financial sectors by strengthening their capital base.
- Effective implementation of Monetary Policy to balance the effect of rapid expansion of credit activities resulting excessive demand created thereby for stability of price and inflation.
- Mobilization of saving and interest rate stability.
- Increase access to finance , financial inclusion and financial literacy.

Targets:

Main targets fixed by Monetary policy, 2015 are:

- Maintain the inflation rate at 8.5 percent. It was 7.5 percent in 2014.
- Help attain GDP Growth of 6 percent. It was 3.04 percent in 2014.
- Maintain foreign exchange reserve to cover 8 month imports and services. Currently the reserve is enough for 11.3 months.
- Attain the private sector credit growth of 20 percent.

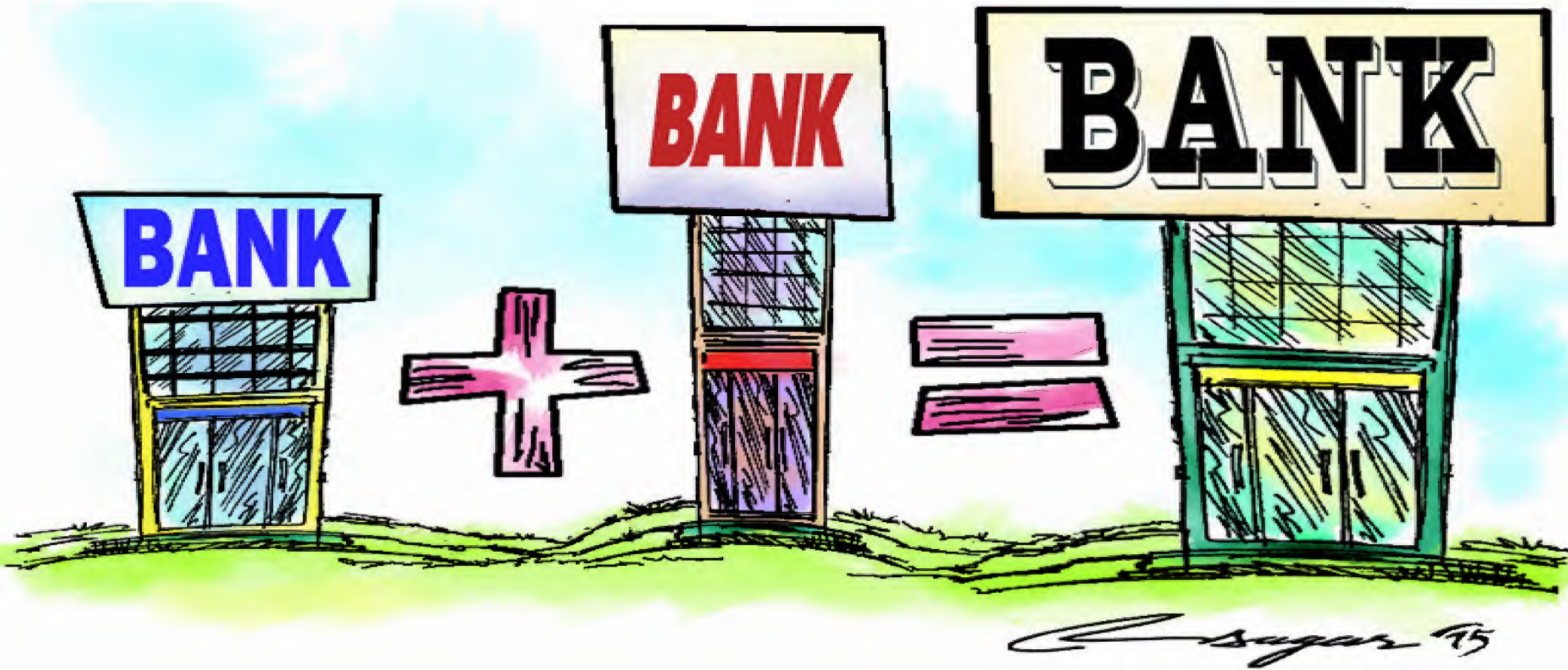
Action plan:

The key action plan are:

- Increase paid up capital of commercial banks by four times to Rs. 8 billion by 2017-18.
- Provide home loan for earthquake affected families at 2 percent rate of interest .
- Reduce bank rate by 1 percent.



Governor and Monetary Policy, 2015



Capital Market Reforms

- Capital market plays an important role in consolidation and mobilization of small savings scattered across the nation.
- The Securities Marketing Centre was established in 1977. Its main purpose was to create market for government securities.
- The Centre was converted into the Securities Exchange Centre in 1984 to enable it to deal with both government securities and stocks.
- Later on, realized that these two functions need to be separated. Hence, the Securities Exchange Act was amended in 1992 to initiate reforms in the stock exchange.
- Consequently, the Securities Exchange Board of Nepal (SEBON) was established to carry on the promotional and supervisory functions.
- Nepal Stock Exchange (NEPSE) was created to conduct operational functions and trading in the securities and stocks.

Liberalization of Nepalese Economy

- Economic liberalization refers to a country “opening up” to the rest of the world with regard to trade, regulations, taxation, less restrictions on both domestic and foreign capital, open market, and other areas that generally affect business in the country.
- Nepal started implementing economic reform programs supported by the IMF and the World Bank from mid-1980s.
- The Nepalese business enterprises were operating under the state regulation and protection.
- Economic forces were predominantly significant for business protection, tariffs, quotas and license were the vital elements of the economic system.
- Business firms had remained over-protected. They were protected not only against foreign companies but also against within the country too.
- The decade of 1990s witnessed fast changes in Nepal’s business environment. Some of the developments that occurred in Nepal during this period were as follows:

- Open market, liberalization, and deregulation of the economy have forced the entire business community into freedom and competition.
- Privatization of major public sector enterprises has changed the balance of the economy. The economy has now tilted in favor of the private sector.
- Consumers and environmentalists have started exerting pressure on business firms to be responsive to consumers' interests and environmental issues.
- Social awareness brought forth the movement toward a pluralistic society of different social and ethnic groups. Human rights, protection of the interest of minority groups, and women empowerment issues became prominent.
- Demand on business also arose from the social activists and citizen in the community where they are located for greater social responsibilities.

- Technology transfer issues came into prominence after the joint venture activities grew in the country.
- Nepal's participation, commitment, and membership in different forums of the international and regional communities, including the WTO, have further pushed the process of globalization and trade liberalization.

These economic reforms and macroeconomic adjustments resulted in a significant change in the overall business environment of Nepal. An outline of the emerging business environment in Nepal as presented here:

- Appearance of Multinationals
- Free enterprise system
- Growing private investment in the core industries
- Growth of the private sector
 - Hydro power
 - Open sky
 - Telecom
 - Road and water supply sectors
 - Other sectors

- Stock exchange market
- Public-private partnership (PPP)
- Shift towards the service sector
- Emergence of information economy
- The emerging marketplace scenario

(The most striking development in the consumer goods sector is, therefore, the shift in consumer preferences with the rise in their income. This also indicates a shift from tradition to modernity. The goods, which were once considered luxurious, have now become essential in urban way of life. The rules of the marketplace are also undergoing in fast change.

So, the economic reform programmes initiated by the government during the last decade have changed the industrial and business environment in Nepal significantly.)



Best of Luck !

Chapter-Three

Political- Legal Environment



Chapter-Three

Political- Legal Environment

Background:

- The political climate in a country in which a business firm operates is a very important force. A hospitable and stable government can encourage business investment and growth in spite of scarcity of natural and other resources.
- Business firm also have to cope with a large number of other tensions like ideological conflicts, terrorism, traditional hostilities, government interventions, labor activism, and so on.
- Political forces thus pose a number of risks to business firms.
- The management of a business firm, therefore, should undertake political risk analysis prior to investing in a new project or in expansion of its existing business.

- A political system is concerned with the direction and administration of the state, the government, and the regulation of the social relationships.
- a state is an association of people for specific common purpose, with a clarity defined territory, a system of laws, and an organized government.
- A government involves making and implementing laws, representing the state, and routine public affairs management.
- The social relationships in aggregate forms are integrated and regulated by the state and its government for national harmony, peace, and well being, development and human rights. A major challenge of the political system is to bring together people of different background and allow them to work together to govern themselves.

Political Structure in Nepal

The Constitution of Nepal, 2015:

- Nepal has adopted a republican, competitive multi-party democratic system with a federal structure.
- The country will be divided into seven federal units, with clear lists of legislative powers for the central, provincial, and local bodies.
- Nepal has also adopted mixed election system.
- There will be two constitution assemblies-Representative Assembly and National Assembly.
- Nepal will be ruled according to constitutional presidency while the prime minister is the executive head.
- Executive rights of the country are vested on the Council of Ministers.
- President is the ceremonial head-of-the state.

The salient features of the Constitution, 2015 are as follows:

- Nepalese society will be governed according to the principles of proportional inclusion and participation which is a significant step towards economic equality and social justice.
- Full rights have been given to people including civic freedom, fundamental rights, human rights, periodic elections and voting rights.
- Full press freedom and independent, fair and competent judiciary is guaranteed.
- Commitment to socialism based on rule of law, democratic norms and values, durable peace, and good governance..
- Specific constitutional commissions (such as the Women Commission, Dalit Commission, Janajati Commission, Madhesi Commission, Tharu Commission, and Muslim Commission) will be constituted along with the National Human Rights commission.
- Protection of the age old religions and secularism with freedom to adopt any religion.

Constitution of Nepal, 2015: Believes and Hope for Better Execution



Political Parties

After the historic People's Movement of 2006, the Nepalese political scene witnessed the emergence of several new political parties. The number of all the parties in the country has now crossed the mark of 130. The process of splits, defections, and mergers of political parties has now been a regular phenomenon in Nepal.

The Principal Political Parties are:

- Nepali Congress
- CPN (UML)
- Nepal Communist Party (Maoist Center)
- Rastriya Prajatantra Party- Nepal
- Madeshi Jana Adhikar Forum- Nepal
- Madeshi Jana Adhikar Forum- Democratic
- Terai- Madesh- Loktantrik- Party
- Rastriya Prajatantra Party
- Sadbhawana Party.
- Janamorcha Party
- Naya Shakti Nepal etc.

(Potential contribution of these parties to politics can not be underestimated).

Government and Its Branches

- The Political system comprises three vital branches. Those are:
 - Legislature
 - Executive or government and
 - Judiciary
- **Legislature**: It is the most powerful political institution vested with such powers as policy making, law making, budget approving, executive control, and acting as a mirror of public opinion.
- **Government**: It refers to the “center of political authority having the power to govern those it serves”. In Nepal, the Council of Ministers headed by the Prime Minister represents the executive system.
- **Judiciary**: The judicial system ensures that the executive system does indeed function as conceived, and also provides the mechanisms to deal with deviations. The courts of justice thus protect the citizens from unlawful acts passed by the legislature and arbitrary acts done by the executive. Nepal consists three levels of courts: i) Supreme court ii) High Court iii) District Court.



Prime Minister



Chief Justice



Speaker

Business-government Relations

- **Role of government**

- **Facilitating Role:** Several facilities to the business like finance, provision of essential public services, administrative and economic infrastructure facilities etc.
- **Regulating Role:** Role of constitutional and legal framework for conduct of business, limits of operation and freedom in order to check undesirable tendencies like formation of monopolies, concentration of economic power in a few hands etc.
- **Entrepreneurial Role:** The role of setting up of business enterprises like public utilities and public enterprises.

Together: Government and Business



Business- government Relations:

- The relationship between the government and business is particularly complex where the state is itself involved in business.
- In Nepal, the state owns varieties of companies, which operate sometimes in competition with private-owned companies. Therefore, the clash of interests arising between the public and the private sectors has to be managed by the government.
- The government also can not ignore the interest of the labor force, consumers, and the wider society.
- The other pressure groups, including the employers' association also come into picture in this web of relationships.

Some of the Issues of government- business relations can be explained as:

1. Government Ownership of Business:

- In socialist countries, the government own a very large segment of business, whereas in other countries relatively less is under the direct control of the government.
- There were 37 public enterprises operating in Nepal in 2015.
- The policy of privatization in Nepal was specified, for the first time, by the Sixth Plan (1980-85).
- Most public undertakings, after liberalization of economy, have been finding themselves in a vulnerable position.
- In most cases, the public sector has to work in close cooperation with the private sector.
- The change in economic policies has changed the nature of the government-public sector relations and, in turn, the overall business climate in the country.

2. Employers' Association:

- In Nepal, enterprises and business houses are organized into their respective district-wise chambers of commerce and industry, which in turn are affiliated to the Federation of Nepalese Chambers of Commerce and Industry (FNCCI) at the national level.
- The FNCCI membership comprises:
 - 100 municipality level chambers in 75 districts.
 - 95 commodity/ sectorial association
 - 668 public and private sector undertaking
 - 20 bi-national chambers.
 - These chambers and associations try to influence government policy through the FNCCI. FNCCI is , in fact, represented in all most all national councils, boards, committees and advisory bodies concerned with business and industry.
 - A number of other business /trade associations have also emerged to represent the members of various professions with the objective of promoting their interest.
 - These associations have been engaged in collective price fixing. As a result, the consumers have been victimized due to the prevalence of cartels in a number of industries.

3. Labor as a Political Force:

- The working class in Nepal is a vital political force bearing upon business.
- Workers of different sectors are organized under their own trade unions.
- They are politically extremely active.
- They are affiliated to political parties.
- Every political party somehow engineers strikes, *Gheraos*, and *Bandhs* to demonstrate its political strengths.
- The political party, which is in power, favors, a union, which is affiliated to it, and the result is endless industrial dispute.
- Over the years, trade unions in Nepal have attained stability and maturity.
- Labor occupies a crucial role in the changed context of business-government relations.

We always Protect our Members



Risks Involved with Nepalese Political Environment

Political risks are defined as any changes in the political environment that may adversely affect the value of the firm's business activities.

Generally, three major types of political risks can be encountered by business firms:

- **Ownership risk:** Common risk that exposes property and life of the firm.
- **Operating risk:** Risk refers to interference with ongoing operations of a firm.
- **Transfer risk:** The risk encountered when attempts are made to shift funds from a country to another.

Political Risks analysis can be done from two perspectives:

- **Macro political risk:** Risks that affect all the firms operating in a country. Examples: civil wars, terrorisms etc.
- **Micro political risk:** Risks that affect only a specific firm or firms within a specific industry. Examples: protests, campaigns against foreign goods etc.



Assessment of Political Risk and Its Implication for Corporate Decision-making:

- **Political instability:** It is the probability that an irregular political event will occur. In Nepal, over the last 20 years 22 governments were formed one after another.
- **Economic factors:** Some economic factors also indicative of political risk. Inflation, balance of payment deficits or surpluses, the growth of per capita income are the crucial economic factors, which indicate the general economic health of an economy. Better country's economic outlook, less political risk.
- **Traditional hostilities:** Traditional hostilities between communities and countries cause problems for business. In Nepal, the security environment remains unstable and disturbing.
- **Labor conditions:** Business firms are particularly careful to learn the composition of the work force available in the country. The influence of unions on political parties also explains the strength of trade unions in Nepal.
- **Subjective factors:** The subjective measures of political risk are based on a general perception of the country's attitude toward private and public enterprises. The attitude of the people toward foreign investment, joint-venture, technology and so on is very important to assess political risk.

Other types of political risks are:

- Intellectual property rights: The government actions consist of weakening protection of the intellectual property rights , such as copyrights, patents, trade marks, and industrial designs.
- Boycotts: These are generally the campaigns against foreign goods.
- Expropriation: This is the transfer of ownership by the government to the domestic entity with payment of compensation.
- Inflation, taxation and currency devaluation: Wider fluctuations and uncertainty in these monetary and fiscal policies of the government can create serious risks to business firms.

Country Risk Rating

Nepal	Political Risk(25)	Economic Performance (25)	Debt Indicator (10)	Corruption Rating (10)	Access to Finance (5)	Access to Capital(5)
2004	15.3	17.99	8	8	4.5	4.5
2003	14.5	15.99	8	8	4.5	4.5
2002	14.5	15	8	8	4.5	4.5
2001	14.5	15	8	8	4.5	4.5
2000	14.5	15	8	8	4.5	4.5

Emerging Issues in Political Environment

Emerging issues in political environment:

- Pressures and agitation created by different community will pressurize the government and business organizations to fulfill their demands.
- Different segments of the society are organizing themselves nationally around issues like, reservation, minority rights, and preferential treatment to mainstream. This has implications for business firms.
- The cases of kidnapping, forced blackmail, killing, threatening have mounted. Businessmen are often targeted.
- Number of illegal armed groups are increasing
- Human right situation is deteriorating in the country.
- Mass rallies, Bandha, burning of vehicles and road blockages with targeted violence are now very common.
- Law and order situation is very critical throughout the country.
- Poor governance and poor administrative and monitoring capabilities lead to making implementation of public policies ineffective.



Political Risks in Nepal



Legal Environment: An Overview of Business Legislation in Nepal

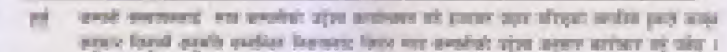
Legal environment of Nepal refers to all the legal surroundings that affect business activities in Nepal. It promotes or restraints business activities.

- Business Legislation in Nepal Includes:
 - **Labor legislation:** Laws relating to, wages, hours of work, payment of bonus, dispute settlement, unionism, and labor relations.
 - **Finance and investment legislation:** Laws relating to investment, taxation, foreign exchange, subsidies, stock exchange, and technology transfer.
 - **Social legislation:** Laws relating to trademark, copyright, consumer rights, consumer interests and environment protection.
 - **Sectoral legislation:** Laws relating to sectoral management like tourism, railways, civil aviation, forest, motor vehicle and transportation, electricity, and water resources.

General Business Legislation

General business legislation : There are four types of business firms in Nepal:

1. Sole Trading Concern (Private firm registration Act 1958).
2. Partnership (Partnership Act, 1964).
3. Joint Stock Company (Company Act, 2006).
4. Cooperative Society (Cooperative Act, 1992).



Labour Legislation

Several provisions have been made by the constitution of Nepal, 2015 and other laws to protect and promote the interest of labour. Some of the notable provisions are:

- right to work,
- prohibition of slavery and forced labour,
- freedom of assembly, association and speech
- freedom of trade, business and welfare, and
- elimination of child labour.

Some of the acts related to labour are:

- Bonus Act 1974
- Labour Act 1992
- Trade Union Act 1992
- Foreign Employment Act 2007
- Child Labor Act 1992
- Industrial Training Act 1982
- Labour Court Regulation Act 1995

Child Labor Act 1992: No Child Labour in Factory

१४ वर्ष मुनिका केटाकेटीलाई
काममा लगाउन सक्त निषेध गरिएको छ।
**CHILDLABOUR UNDER THE AGE OF 14
IS STRICTLY PROHIBITED**

Finance and Investment Legislation

Financial system in Nepal consists of the NRB, two large state-controlled commercial banks, joint-venture commercial banks, development banks, private finance companies, share market companies, the employee provident fund, the credit guarantee corporation, the citizen investment fund, and the stock exchange center.

Some of the acts related with Finance and Investment are:

- Foreign Investment and Technology Transfer Act 1992.
- Foreign Investment policy 2014.
- Income Tax Act 2002.
- Finance Act 2007.
- Customs Act 1963.
- Export and Import Act 1956.
- Value Added tax Act 1996.
- Security Act 2006.

Intellectual Property Legislation

- Intellectual property comprises: patents, trade marks and trade names, copyrights, and trade secrets.
- Patents: It provides property rights to inventions.
- Trademarks and name: It protects the seller's exclusive rights to use the brand name or brand mark.
- Copyrights: it is exclusive legal right of authors, composers, playwrights, artists and publishers to publish and dispose of their works.
- Trade Secrets: Any information a business wishes to hold confidential.

Consumer Protection Legislation

- Consumer Protection Act, 1998 has guaranteed the following rights to the consumers:
 - Right to protect life, health and property from harmful consumer goods;
 - Right to be informed about price, quantity and quality of consumer goods to get protection from malpractice;
 - Right to be assured of the selection of goods in competitive prices;
 - Right to be assured of hearing by appropriate authority on the protection of the interest of consumer;
 - Right to hearing and compensation; and
 - Consumer education

e-business

- **E-business (e-Business)**, or Electronic **Business**, is the administration of conducting **business** via the Internet. This would include the buying and selling of goods and services, along with providing technical or customer support through the Internet.
- Many companies have started the trend of e-business in Nepal decade ago, but the challenges are still the same. The actual sales have not been able to start due to lack of knowledge, awareness and online payment systems. Selling globally and inside the country is the same in years. Payment Gateways are being developed but they have their limitation due to legal and security issues.
- The lack of proper knowledge and awareness among the generation is the major hurdle in e-business
- In past recent years due to education and reach to internet among the many people in Nepal has brightened the future of e-business The interest of students in the field of IT, the growth of IT companies has helped a lot in the awareness and interest in young generation for internet and IT, has directly created more opportunities for the growth of e-business in Nepal

Best of Luck !

Globalization

- Globalization refers different things to different people such as;
- TO A BUSINESS Executive : a strategy of crossing national boundaries through globalized production and marketing network.
- To an economist : economic interdependence between countries, increased trade, technology, labour and capital flow.

Globalization refers free movement of factors of production across national boundaries.

Forms of Globalization

1. Economic Globalization – due to liberalization, deregulation, privatization and cheaper transportation and communication.
2. Cultural globalization: cultural sharing globally – due to fast and cheap communication, television networks – all these factors are reducing the cultural barriers and turning the whole globe into a small cultural hub.
3. Political globalization : nations are inter- dependent today. Countries are joining and formulate macro- political frameworks, for development. Countries are sharing experiences on good governance, legal system, human rights etc.
4. Environmental globalization: countries are uniting to address global issues such as global warming, climate change, acute loss of bio diversity.e.t

Methods of globalization

1. Exporting

1. Direct Exporting : manufacturer directly sales to international buyer
2. Indirect Exporting : selling through intermediaries

2. Licensing and franchising

1. Licensing : firm contractually assign the rights to certain technical know-how, design, intellectual property, patent, brand names to a foreign company in return of fees or royalties.
2. Franchising : special form of licensing in which franchiser grants the right franchisee to do the business in prescribed manner

3. Fully owned manufacturing facilities : their own factories abroad.

4. Joint ventures : partnership with domestic company

5. Merger and acquisition

6. Strategic alliance

Globalization issues

1. Globalized production : most of production activities of developed countries have been shifted to developing countries.
2. Global outsourcing : global companies are purchasing different components from different companies. Companies retain key business processes and let other independent companies produce on their behalf.
3. Shift from manufacturing to service sector
4. Global corporation : Multinational companies are growing in size and well as in numbers. These companies consider global market as one single market – do research, raise capital . In past west was highly industrialized – these days multinational companies with giant size, global operation- are not confined to west. Rather west is now “deindustrialized”
 1. AMERICAN companies – product is now produced in, by America / American



SAARC

- The South Asian Association for Regional Cooperation (SAARC) was established with the signing of the SAARC Charter in Dhaka on 8 December 1985.
- The Secretariat of the Association was set up in Kathmandu on 17 January 1987.
- SAARC comprises of eight Member States:
 - Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.
- Current secretary general of SAARC – Amjed Hussein. B. Sial – from Pakistan

Objectives of SAARC

- To promote the welfare of the peoples of South Asia and to improve their quality of life.
- To accelerate economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realize their full potentials;
- To promote and strengthen collective self-reliance among the countries of South Asia;
- To contribute to mutual trust, understanding and appreciation of one another's problems;
- To promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields;
- To strengthen cooperation with other developing countries;
- To strengthen cooperation among themselves in international forums on matters of common interests; and to cooperate with international and regional organizations with similar aims and purposes.

SAARC bodies

1. Summit
2. Council of ministers
3. Standing committee
4. Programming committee and
5. Technical committee – it comprises 11 tech committees.
 1. Agriculture and forestry
 2. Education, culture and sports
 3. Health, population and child welfare
 4. Environment and meteorology ,
 5. Rural development
 6. Tourism
 7. Transport
 8. Science and technology
 9. Communication
 10. Women in development and
 11. prevention of drugs trafficking

Preferential Trading Agreement

- PTA stands for Preferential Trade Agreement, and is an economic pact (agreement) between participating countries to help improve quantity of trade by gradually reducing tariffs between participating countries.
- The barriers to trade are not altogether removed, but a preference is shown towards participating countries in comparison to other countries of the world.

- FTA stands for Free Trade Agreement, and is considered to be an advanced stage in trade between participating countries of a trading block.
- These are countries that agree to eliminate altogether artificial barriers and tariffs in trade between participating countries.
- Countries that share cultural links and geographical links are much more likely to have a trade block of this magnitude.
- One such block is European Union where free trade is practiced between the countries of the union.

Difference between PTA and FTA

- The aim of PTA and FTA being similar, thin line dividing these agreements gets blurred at times
- PTA is always a starting point and FTA is the final goal of participating countries in a trade block.
- Whereas PTA aims at reducing tariffs, FTA aims at elimination of tariffs altogether.

SAPTA

- SAARC Preferential trading agreement. - -1995 with the objectives of economic development, cope with the challenges of globalization.
- Later, realizing the need to move quickly towards the goal of free trade, the MALE Summit decided to work out the frame work of SAFTA.

SAPTA's objectives were;

1. Promoting cooperation for the benefit of the member countries' people.
2. Bringing awareness that expansion of trade would stimulate economic development – for this expansion of trade and investment is necessary
3. Providing greater employment opportunities to the citizens of the contracting countries and helping to secure high living standard of their people.
4. Strengthening intra-regional economic cooperation
5. Increasing the share of south Asian Trade in the global trade.

SAFTA

- South Asian Free Trade Agreement – was signed in 2004 in SAARC summit held in Islamabad.
- Under this agreement the then Non-LDC countries;
 - India, Pakistan, and Sri Lanka were required to reduce their tariffs to 0-5 % by 2013 and
 - LDCs like (Nepal, Bangladesh, Maldives, and Bhutan) had to bring down their tariff rates to 0-5 % by 2016
- SAFTA came into affect from January 1, 2001.

Objectives of SAFTA

1. Elimination of trade barriers and facilitation of intra- regional movement of goods
2. Promoting fair competition in free trade area
3. Ensuring equitable benefits to all contracting states.
4. Creating effective mechanism for the implementation and application of the agreement
5. Establishing a framework for further regional cooperation to expand the enhance the mutual benefits o

Principles of SAFTA

- SAFTA is governed by the provisions, rules, regulations, decisions and understandings and protocols agreed by the contracting states.
- The contracting states affirm their existing rights and obligations with respect to each other under Marrakesh Agreement.
- The **Marrakesh Agreement**, manifested by the **Marrakesh Declaration**, was an **agreement** signed in **Marrakesh**, Morocco, by 124 nations on 15 April 1994, marking the culmination of the 12-year-long Uruguay Round and establishing the World Trade Organization, which officially came into being on January 1, 1995.

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BIMSTEC-1997



BIMSTEC



- The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) is a regional organization comprising seven Member States lying in the littoral and adjacent areas of the Bay of Bengal constituting a contiguous regional unity.
- This sub-regional organization came into being on 6 June 1997 through the Bangkok Declaration.
- It constitutes seven Member States:
 - five deriving from South Asia, including Bangladesh, Bhutan, India, Nepal, Sri Lanka, and
 - two from Southeast Asia, including Myanmar and Thailand.
- Initially, the economic bloc was formed with four Member States with the acronym 'BIST-EC' (Bangladesh, India, Sri Lanka and Thailand Economic Cooperation).

- Following the inclusion of Myanmar on 22 December 1997 during a special Ministerial Meeting in Bangkok, the Group was renamed 'BIMST-EC' (Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Cooperation).
- With the admission of Nepal and Bhutan at the 6th Ministerial Meeting (February 2004, Thailand), the name of the grouping was changed to 'Bay of Bengal Initiative for Multi-Sectorial Technical and Economic Cooperation' (BIMSTEC).
- NEPAL and Bhutan's membership to BIMSTEC- 2004

- The regional group constitutes a bridge between South and South East Asia and represents a reinforcement of relations among these countries.
- BIMSTEC has also established a platform for intra-regional cooperation between SAARC and ASEAN members.
- The BIMSTEC region is home to around **1.5 billion** people which constitute **around 22% of the global population** with a combined gross domestic product (GDP) of **2.7 trillion economy**.
- In the last five years, BIMSTEC Member States have been able to sustain an average **6.5%** economic growth trajectory despite global financial meltdown.

Objectives - BIMSTEC

- The objective of building such an alliance was to;
- harness shared and accelerated growth through mutual cooperation in different areas of common interests by mitigating the onslaught of globalization and by utilizing regional resources and geographical advantages.
- The main objectives of the Free-Trade Area Framework Agreement of the Bay of Bengal Initiative (BIMSTEC) are to: Strengthen and improve **economic**, international trade, and foreign direct investment **cooperation**.
- Progressively liberalize and promote foreign trade in products and services.

BIMSTEC – priority sectors - 14

- **BIMSTEC Priority Sectors**
- Six priority sectors of cooperation were identified at the 2nd Ministerial Meeting in Dhaka on 19 November 1998. They include the followings:
 1. Trade & Investment
 2. Transport & Communication
 3. Energy
 4. Tourism
 5. Technology
 6. Fisheries

- After the 8th Ministerial Meeting in Dhaka on 18-19 December 2005, a number of new areas of cooperation emerged. The number of priority sectors of cooperation increased from 6 to 13. The 7 new sectors were discussed in the 1st BIMSTEC Summit and there has been various activities to enhance those co-operations ever since. The sectors are as follows;

7. Agriculture

8. Public Health

9. Culture and cooperation

10. Poverty Alleviation

11. Counter-Terrorism & Transnational Crime

12. Environment & Natural Disaster Management

13. People-to-People Contact

- The thirteenth Session of the BIMSTEC Senior Officials' Meeting recommended the inclusion of Climate Change as the 14th priority area of cooperation. The eleventh BIMSTEC Ministerial Meeting held in New Delhi in November 2008 endorsed this recommendation.

14.Climate Change

FDI in NEPAL

- Meaning
- **Foreign direct investment (FDI)** is an investment made by a company or individual in one country in business interests in another country,
 - in the form of either establishing business operations or
 - acquiring business assets in the other country, such as ownership or controlling interest in a foreign company.
- Foreign Direct Investment in Nepal increased by 5920.90 NPR Million in 2016. Foreign Direct Investment in Nepal
 - averaged 2741.39 NPR Million from 2001 until 2016,
 - highest of 9195.40 NPR Million in 2012
 - and a record low of -469.70 NPR Million in 2006.

Country-wise FDI in Nepal

2073/74 (2016/17) (6 months)

1	CHINA (MAINLAND)	122	5747.26	5271.24	3788.00	49%
2	CHINA (HONG KONG)	1	2000.00	2000.00	133.00	19%
3	SOUTH KOREA	10	2122.00	1620.04	317.00	15%
4	INDIA	28	900.66	702.85	886.00	7%
5	USA	21	252.74	228.16	555.00	2%
Subtotal of top 5 countries		182	11022.66	9822.29	5,679	92%
Other 26 Countries		67	1,204.70	863.78	1569	8%
TOTAL		249	12,227.36	10,686.07	7,248.00	100%

Source : Department of Industry, GoN

Globalization

Globalization



refers to the increasingly global relationships of culture, people, and economic activity. It is generally used to refer to economic globalization: the global distribution of the production of goods and services, through reduction of barriers to international trade such as tariffs, export fees, and import quotas.

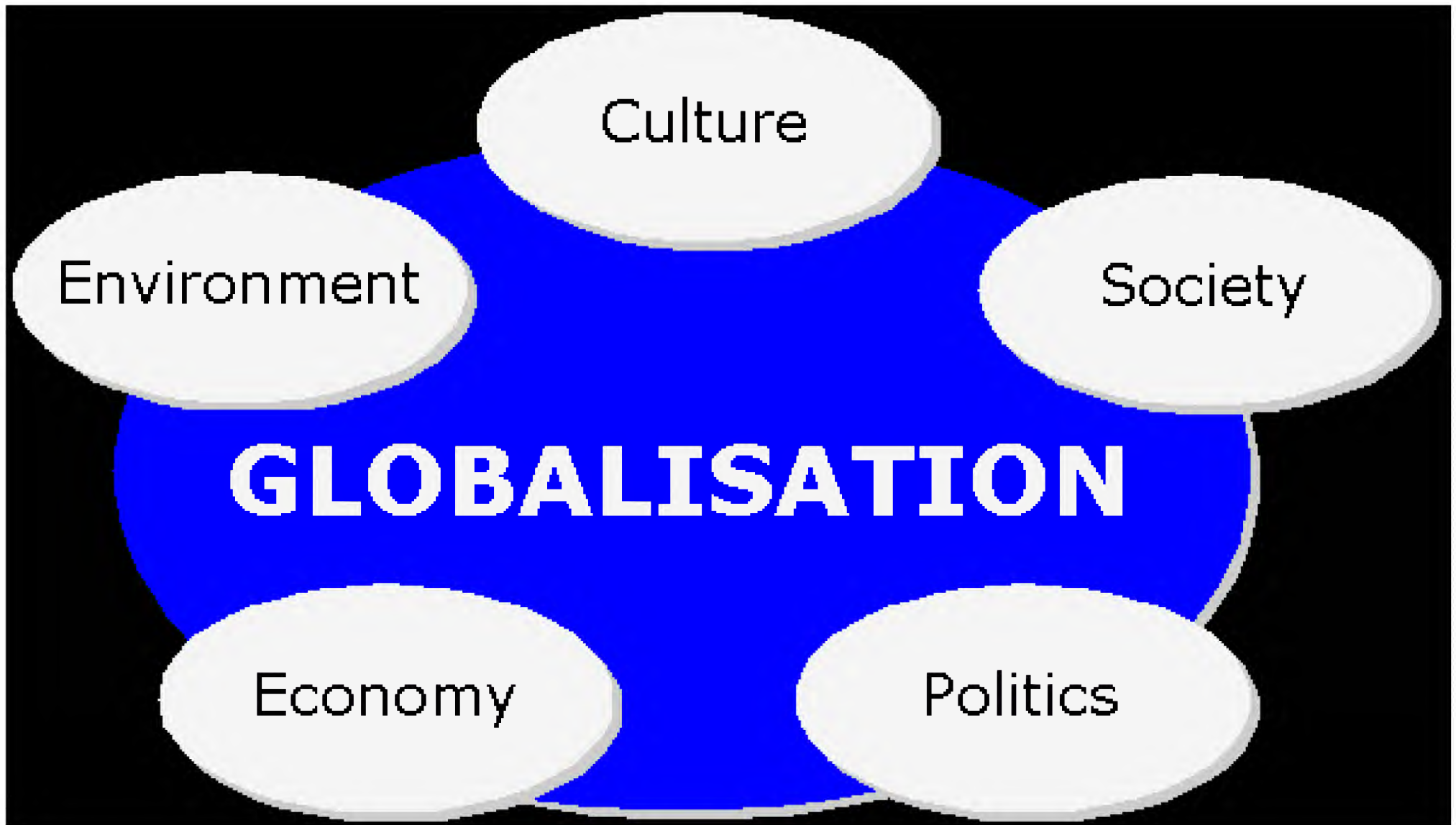
Unit 6

Globalization

Globalization is a process that promotes:

- Economic interdependence of all the countries in the world
- Integration of national economics into one global economy
- Free movement of products across borders, world as single market
- International free flow of capital, labour, management and technology

Globalization: Various Forms



Nature of Globalization:

- Integration through interdependence
- Free market economies
- Free movement of products
- Free flow of factors of productions
- Standardized technology
- Information and communication
- Global corporation with global image

Forms of Globalization

- Economic globalization
- Political globalization
- Cultural globalization
- Environmental globalization

Impact of Globalization:

Positive impact

1. Enhanced productivity and income
2. Transfer of capital, management and technology
3. Growth in trade
4. Increased employment
5. Emergence of new industrialized countries

Negative impact:

1. Erosion of national sovereignty
2. Inequitable distribution of benefits
3. Competition
4. Exchange rate uncertainty
5. Threat to social and cultural values
6. Environment degradation
7. Unequal partnership

Positive Vs Negative

IMPACTS OF GLOBALISATION

POSITIVE EFFECTS

- Expansion of market
- Development of infrastructure
- Higher living standards
- International cooperation

NEGATIVE EFFECTS

- Cut throat competitions
- Rise in Monopoly
- Take over of Domestic Firms
- Increase in Inequalities



Methods of Globalization

- Exporting (direct and indirect)
- Licensing and franchising
- Management contract
- Joint ventures
- Fully Owned Manufacturing Facilities
- Mergers and Acquisitions
- Expanding Markets
- Globalizing Production
- Strategic Alliances
- FDI and portfolio investment
- Other strategic alliances

Exporting: Powerful Method of Globalization



Regional Grouping of Nations

Concept: Regional grouping of nations is a preferred economic arrangement and integration among a group of countries. Economic integration involves the countries into groups that ultimately abolish trade restrictions with member countries. They may also engage in other economic activities that promote citizen's welfare.

Forms of Regional Economic Integration

1. Preferential Trading Agreements: A group of countries agree to allow each other's goods and services to be traded on preferential terms. For example: SAPTA.

2. Free Trade Area: In free trade area, the member countries abolish tariff and non-tariff barriers and restrictions on the intra-regional trade. For Example: European Free Trade Area (EFTA), North American Free Trade Area (NAFTA).

3. Custom Union: Free trade within the union as well as adopt a common external tariff which is applied to imports from the rest of the world.

7. Common Market: It involves common external tariff that is found in a customs union. It also involves free movement of factors of production-capital, labor, enterprise and technology among the member states.

8. Economic Union: In economic union , all the features of a common market exist. For Example: EU.

9. Political Union: it is taken as the highest form of integration. It is the integration with common foreign and security policies as well as judicial cooperation.

EU: Strong Economic Integration



Regional Trade Agreements in South Asia

1. SAARC: The countries of South Asia formed a regional organization called South Asian Association for Regional Cooperation (SAARC) on December 7, 1985 to work together towards finding solutions to their common problems. Member countries are:

- a. Bangladesh b. Bhutan c. India
- d. Maldives e. Nepal f. Pakistan
- g. Sri Lanka h. Afghanistan

SAARC: Cooperation with Various Countries



The main objectives of SAARC are:

1. To improve regional cooperation, particularly in economic development.
2. To promote the welfare of the peoples of South Asian and improve their quality of life.
3. To accelerate economic growth, social progress and cultural development in the region and provide all individuals the opportunity to live in dignity and realize their full potential.
4. To promote and strengthen collective self-reliance among the south Asian countries.

5. To contribute to mutual trust, understanding and appreciation of one another's problems.

6. To strengthen cooperation with other developing countries.

7. To cooperate with international and regional organizations with similar aims and purposes.

SAPTA and SAFTA

1. SAPTA: SAARC Preferential Trading Arrangement (SAPTA) is an agreement on trade of the SAARC countries, which provides each other the preferential treatment to reduce import tariffs on preferential items. SAPTA agreement was signed in 1993. The arrangement was made with the following considerations:
 1. Promoting cooperation for the benefit of their people.
 2. Bringing awareness that the expansion of trade could act as a powerful stimulus to the development of their national economies by expanding investment and production.

3. Providing greater opportunities of employment and helping to secure high living standards for their people.

4. Strengthening intra-regional economic cooperation.

5. increasing the share in the total volume of South Asian trade.

SAPTA: Trading Arrangement

SAPTA

..... stands for

**SAARC (South Asian
Association for Regional
Cooperation) Preferential
Trading Arrangement**



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